

Rating Report

Brickwork Ratings assigns 'BWR BB' & 'BWR A4+' for the Bank Loan Facilities aggregating ₹ 20 Cr of Agarwal Company

Brickwork Ratings has assigned the following **Ratings**¹ for the Bank Loan Facilities of Agarwal Company (*AC or the firm*).

Facilities	Limits (₹ Cr)	Tenure	Rating
Fund Based			
Overdraft	6.00	Long Term	BWR BB (Pronounced as BWR Double B) Outlook: Stable
Total Fund Based	6.00		
Non Fund Based			
Bank Guarantee	14.00	Short Term	BWR A4+ (Pronounced as BWR A Four Plus)
Total Non-Fund Based	14.00		
Total (FB+NFB)	20.00	(INR Twenty Crores only)	

BWR has essentially relied upon the audited financials of Agarwal Company up to FY 13 and Provisional financials of FY 14, publicly available information and information/clarifications provided by the firm.

The rating reflects, promoters experience in the industry, long and established track record of operation in construction business, well reputed and established customer base ensures steady flow of orders to the firm, classified as class- A contractor with various government departments and healthy order book position project value of around Rs.82.00 crs.

The rating is, however, constrained by modest scale of operations, moderate financial risk profile marked by low tangible Networth, high gearing level and moderate debt service coverage ratios, high project concentration risk since all the projects restricted to the state of UP and Delhi, risks inherent in a partnership firm like limited ability to raise equity capital, risk of dissolution due to death/retirement/insolvency of partners etc., competitive nature of the industry and working capital intensive nature of operations.

Background:

Agarwal Company (AC), was established as partnership firm in 1980 with Mr. V. P. Agarwal, Mr. Manoj Agarwal and Mr. Vikas Agarwal as partners. AC is engaged in the construction business with its head office located in Lucknow and Branch offices in Agra & Varanasi. The partners have significant experience in the construction business for more than four decades.

¹ Please refer to www.brickworkratings.com for definition of the Ratings

AC is registered as an A-class contractor with Agra Development Authority, Varanasi Development Authority and various government departments. The firm has executed various projects including multi-storey structures work on turnkey basis, development works, external & internal sewerage & water supply works, water proofing works, road works, overhead water tanks, land scaping & warehouses of big capacities, along with internal & external electrical work, façade works and major interior works etc. AC is currently executing projects worth around Rs. 82 Cr.

Financial Performance:

As per provisional financial details for FY 14 submitted by company, the net revenue from operations increased from ₹ 20.50 Cr in FY13 to ₹ 40.54 Cr in FY14. EBITDA and PAT margins were at 9.34 % and 0.74% respectively in FY14, marginally decreased from 10.45% and 6.26% respectively in FY13 due to high interest and finance charges in FY 14.

Due to retention of profits, tangible Networth increased from Rs. 2.59 Cr in FY 13 to Rs. 3.30 Cr in FY 14. In addition, interest-free unsecured loan from promoters was Rs. 1.81 Cr, which are sub-ordinated to the bank and continued in business. Borrowings are essentially by way of working capital facilities and the ratio of Total Debt to Equity was 2.19x times in FY 13 which include unsecured loans of Rs. 1.81 Cr. Treating promoters' loans as quasi-equity, adjusted debt to equity ratio will be around 1.06 x times. During four months of operation, the firm has achieved revenues of around Rs. 10 Cr and Rs. 3 Cr bills pending with government authorities.

Credit Risk Assessment:

Experienced Partners

AC is currently managed by Mr. Manoj Agarwal and Mr. Vikas Agarwal (the main partners). Mr. Manoj Agarwal is a MBA graduate aged about 45 years, having over two decade of experience in executing civil construction projects. Other partner, Mr. Vikas Agarwal is a MBA graduate aged about 30 years, having over a decade of experience in executing civil construction projects. Both the partners looks after the day-to-day affairs of the firm with the a team of experience professionals.

Long and established track record of Operations

AC, operating since 1980, is a relatively moderate sized Lucknow based construction firm engaged in execution of various projects including multi-storey structures work on turnkey basis, development works, external & internal sewerage & water supply works, water proofing works, road works, overhead water tanks, land scaping & warehouses of big capacities, along with internal & external electrical work, façade works and major interior works etc.

Established customer base and order book position

AC has an impressive list of clients from the government sector, like, Agra Development Authority and Varanasi Development Authority and so on. The order book position has been satisfactory over the years and as on July 31, 2014 the value of orders in hand was Rs.81.37 Cr.

Geographical concentration risk

The firm sources and executes construction work for both public and private companies, indicating that the firm is diversifying its customer base not only highly dependent on Government orders. However, with increase in the number of orders the customer mix is also likely to vary.

AC is a Lucknow based firm having its operations only in the state of Uttar Pradesh & Delhi. As such the firm is exposed to geographical concentration risk.

Constitution as a partnership firm

Being a partnership firm, AC is exposed to the inherent risk of partner's capital being withdrawn at time of personal contingency and the firm being dissolved upon the retirement/insolvency of partners. This restricts its financial flexibility to a large extent.

Working capital intensive nature of operations

AC's business, being execution of construction projects, is working capital intensive. However, the liquidity position of the firm as reflected by current ratio as on March 31, 2014 was moderate at 1.31 times. The working capital cycle was moderate at 61 days in FY14 (P) due to high inventory days of 64 days in FY 14 (P). So as to fund high level of working capital, it has to depend on the bank borrowings.

Rating Outlook:

The rating outlook is expected to be stable over the current year. Going forward, the ability to achieve the projected turnover by completion of projects in estimated time, realization of receivables on time, improving profitability margins, strengthening its capital structure, and effectively management of working capital - will remain key rating sensitivities.

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**Annexure- I
Profit & Loss Account**

Agarwal Company				
₹ Crores	FY 11	FY 12	FY 13	FY 14
Result Type	Audited	Audited	Audited	Provisional
Gross Sales	23.72	24.34	20.50	40.54
Net Sales	23.72	24.34	20.50	40.54
Other Operating Income	0.00	0.11	0.00	0.00
Total Operating Income	23.72	24.45	20.50	40.54
Operating Expenses	21.70	22.37	18.36	36.76
OPBDIT	2.02	2.09	2.14	3.79
Depreciation/Amortization/Impairment	0.17	0.20	0.22	0.23
OPBIT	1.85	1.88	1.92	3.55
Interest and Finance Charges	0.49	0.52	0.72	1.34
OPBT	1.36	1.36	1.20	2.21
Non-Operating Income(Expenses)	0.09	0.17	0.09	0.12
PBT	1.45	1.53	1.28	2.33

**Annexure- II
Balance Sheet**

Agarwal Company				
₹ Crores	FY 11	FY 12	FY 13	FY 14
Result Type	Audited	Audited	Audited	Provisional
Liabilities				
EQUITY AND RESERVES	2.33	2.96	2.59	3.30
Share capital	0.88	1.43	1.31	0.97
Reserves and Surplus	1.45	1.53	1.28	2.33
Non-current liabilities	0.78	1.36	1.48	1.81
Long-Term Borrowings	0.78	1.36	1.48	1.81
Current liabilities	6.26	4.04	12.64	10.84
Short-Term Borrowings	1.97	2.77	4.42	5.42
Trade Payables	0.77	0.38	0.38	0.29
Other Current Liabilities	3.47	0.78	7.69	5.12
Short-Term Provisions	0.05	0.10	0.15	0.00
Total Liabilities	9.38	8.36	16.70	15.94
ASSETS				
Non-current assets	1.28	1.18	1.37	1.31
Net Fixed assets	1.28	1.18	1.37	1.31
Current assets	8.10	7.19	15.33	14.63
Inventories	2.61	3.15	7.96	4.23
Trade Receivables < Six Months	1.66	0.19	0.56	0.00
Cash and Cash Equivalents	0.32	0.23	0.41	2.06
Short-Term Loans and Advances	3.51	3.62	6.41	8.34
Total Assets	9.38	8.36	16.70	15.94