

## Aarti Construction Co.

November 06, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term / Short Term Bank Facilities	30.00	CARE BB; Stable / CARE A4; ISSUER NOT COOPERATING*	Downgraded from CARE BB+; Positive / CARE A4+ and moved to ISSUER NOT COOPERATING category

Details of instruments/facilities in Annexure-1.

\*Issuer did not cooperate; based on best available information.

### Rationale and key rating drivers

CARE Ratings Ltd. has been seeking information from Aarti Construction Co. (ACC) to monitor the ratings vide e-mail communications dated November 04, 2024; October 03, 2024; September 26, 2024; July 04, 2024, amongst others and numerous phone calls. However, despite our repeated requests, the firm has not provided the requisite information for monitoring the ratings.

In line with the extant SEBI guidelines, CARE Ratings Ltd. (CARE Ratings) has reviewed the rating on the basis of the best available information which however, in CARE Ratings' opinion is not sufficient to arrive at a fair rating. The ratings on ACC's bank facilities will now be denoted as **CARE BB; Stable / CARE A4; ISSUER NOT COOPERATING\***.

**Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating(s).**

Ratings and outlook have been revised on account of non-availability of the requisite information to conduct the review. Ratings assigned to the bank facilities of Aarti Construction Co. (ACC) continue to remain constrained on account of moderate scale of operations and profitability during FY23 (Audited; refers to period from April 01 to March 31), limited geographical diversity and susceptibility of its profit margins to volatility in raw material prices. Ratings also continue to be tempered by partnership nature of its constitution, cyclical nature of the industry and risk inherent due to tender driven nature of its business.

Ratings, however, continue to derive strength from its experienced and well qualified partners with established track record of the firm, healthy order book position with lower counter party risk, its continued comfortable capital structure, debt coverage indicators, adequate liquidity, and improved prospectus due to thrust of government on infrastructure development.

### Analytical approach: Standalone

#### Outlook: Stable

CARE Ratings believes that the entity will continue to benefit from the extensive experience of the promoters in the civil construction industry.

### Detailed description of key rating drivers:

At the time of last rating on November 07, 2023, the following were the rating strengths and weaknesses considered.

#### Key weaknesses

##### Moderate scale of operations and profitability

ACC's scale of operations marked by total operating income (TOI) continued to remain moderate at Rs.105.59 crore in FY23 as against Rs.104.66 crore during FY22. Further, ACC has reported TOI of ~Rs. 27 crore during H1FY24 which remained marginally lower mainly owing to non-booking of revenue on the back of delay in revenue from one of the contracts.

During FY23, profitability marked by profit before interest, lease rentals, depreciation and tax (PBILDT) margin moderated by 80 bps to 5.87% as compared to 6.67% during FY22 on account of volatility in raw material prices since FY22's orderbook consisted of 54% of total orderbook value with no price escalation clause. Consequently, the profit after tax (PAT) margin remained moderate at 2.89% in FY23 (P.Y.: 3.60%). However, ACC reported healthy RONW and ROCE at 16.99% and 18.46% respectively in FY23.

##### Limited geographical diversity

ACC's order book consists of canal construction, modernisation and lining work, state road projects, composite border out post (BOP) construction and building construction. Of which 6% belong to canal segment, 77% road segment and 17% from civil construction segment. Further, operations are mainly concentrated in Gujarat state forming 77% of its orderbook contract value.

<sup>1</sup>Complete definition of ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Limited's publications.

### **Susceptibility of its profit margins to volatility in input price**

The prices of the key raw materials viz., steel, cement, sand, bitumen and aggregates being commodity, are very volatile in nature. Hence, any adverse movement in these prices can put pressure on the profit margins of the firm. However, although ACC does not have an in-built price escalation clause in around 15% of its current orderbook contracts, the firm includes the possibility of raw material volatility at the time of bidding for contracts.

### **Partnership nature of constitution**

ACC's constitution as a partnership concern with modest net worth base of Rs.19.11 crore as on March 31, 2023, restricts its overall financial flexibility in terms of limited access to external fund for any future expansion plans. With the modest base of own funds, its operations are susceptible to any business shock, thereby limiting its ability to absorb losses or financial exigencies. Further, it also results into increased vulnerability of its financial risk profile to any incremental debt. Furthermore, there is an inherent risk of possibility of withdrawal of capital.

### **Cyclical nature of the industry as well as risk inherent due to tender driven nature of business**

The fortune of construction industry is linked to the condition of economy and fiscal policy of government, which is inherently cyclical in nature. These factors limit the pricing flexibility and bargaining power of ACC and put pressure on its profitability. Furthermore, ACC works on various types of tenders such as new road and canal construction, repair and maintenance of the same as well building construction work. The firm mostly executes tenders for Government of Gujarat and Sardar Sarovar Narmada Nigam Limited. This parameter emerges as an inherent risk to the business as Governments and its agencies issues tenders as per their requirement and this does not provide assurance for continuous flow of work. The entire business prospects are highly dependent on the government and its agencies' tenders and the business volume remains high in the years when there are higher number of tenders and vice versa. However, as per the partners, ACC is getting enough work from the government during the year and the resources are not remaining idle. ACC spends around Rs. 2 crore every year for capex every year.

### **Key strengths**

#### **Experienced and well qualified partners with established track record of the firm**

ACC was set up since 1983, and hence, the firm has established its operations for around three decades. The partners of the firm Mr. Damjibhai Mandanbhai Baldania, Mr. Jayantilal Mandan Sorathia, Mr. Dixit Laljibhai Sorathia, Mr. Kirankumar Damjibhai Baldania, Mr. Dipak Jantilal Sorathiya, Mr. Vijay Dhanjibhai Sorathia and Mr. Nikhil Jayantilal Sorathia have long experience of more than three decades in the same industry. Due to the vast experience and history of successful completion of many projects, the partners and firm have developed good reputation in the market as well good relationship with its suppliers and customers (i.e. Government departments).

#### **Healthy orderbook position with lower counter party risk**

ACC's unexecuted orderbook position improved by 146% since last review and remained at Rs.368.65 crore as on July 31, 2023 translating into 3.61x of TOI of FY23 reflecting medium term revenue visibility. ACC's execution timeline majorly ranges from 1.5-2.5 years depending upon scope and complexity of the work. ACC is gradually shifting focus towards civil construction work of composite BOP, linking roads and OP towers at Indian borders with an incentive of faster execution of orders due to strict deadlines in these works which is expected to lead to faster growth in revenue. Further, as articulated by the management, it has been declared as L1 bidder for contract value of ~Rs.25 crore and is expected to be converted into orderbook in near term. Furthermore, majority of its orders are from Central Public Works Department or State Public Works Department reflecting low counter party risk.

#### **Comfortable capital structure and debt coverage indicators**

ACC's capital structure continues to remain comfortable marked by an overall gearing of 0.51x as on March 31, 2023 (FY22 (A): 0.59x as on March 31, 2022) due to accretion of profits and lower working capital utilisation. The debt coverage indicators also continue to remain comfortable as marked by healthy interest coverage ratio of 7.34x and comfortable total debt to GCA (TDGCA) of 2.09 years for the year ended March 31, 2023.

#### **Improved prospectus due to thrust of government on infrastructure development**

The government has been emphasizing special focus on the revival of the investment cycle and various steps have been announced for boosting infrastructure development, including relaxing of FDI norms, faster decision-making in stuck projects and fund allocation for large government schemes like smart cities, Pradhan Mantri Awas Yojna by 2022 and Atal Mission for Urban Rejuvenation and Transformation (AMRUT). This increased focus of the government on infrastructure development is expected to translate into huge business potential for the construction industry in the long run.

### **Applicable criteria**

[Policy in respect of non-cooperation by issuers](#)

[Definition of Default](#)

[Rating Outlook and Rating Watch](#)

[Financial Ratios – Non financial Sector](#)

[Construction](#)

[Short Term Instruments](#)

## About the firm and industry

### Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Industrials	Construction	Construction	Civil Construction

Gujarat based ACC was established in 1983 as a partnership firm and is engaged into road, irrigation canal construction and building construction services. ACC secures major portion of tenders through open bidding from various state governments. The firm is registered as Class AA approved contractor (out of scale of Class AA to E) with Roads & Buildings Department (R&B), Govt. of Gujarat as well as Sardar Sarovar Narmada Nigam Limited. The firm has successfully completed various road and canal construction projects majorly in regions of Gujarat and Maharashtra.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (Prov.)
Total operating income	104.66	105.59	26.78
PBILDT	6.99	6.20	NA
PAT	3.76	3.05	NA
Overall gearing (times)	0.59	0.51	NA
Interest coverage (times)	9.07	7.34	NA

A: Audited, Prov.: Provisional, NA: Not available; Note: 'the above results are latest financial results available'

**Status of non-cooperation with previous CRA:** CRISIL has conducted the review on the basis of best available information and has classified the ACC as "Not cooperating" vide its press release dated April 08, 2024.

**Any other information:** Not applicable

**Rating history for last three years:** Annexure-2

**Detailed explanation of covenants of rated instrument / facility:** Annexure-3

**Complexity level of instruments rated:** Annexure-4

**Lender details:** Annexure-5

### Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT/ ST-Cash Credit	-	-	-	-	5.00	CARE BB; Stable / CARE A4; ISSUER NOT COOPERATING*
Non-fund-based - LT/ ST-Bank Guarantee	-	-	-	-	25.00	CARE BB; Stable / CARE A4; ISSUER NOT COOPERATING*

\*Issuer did not cooperate; based on best available information.

**Annexure-2: Rating history for last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST	25.00	CARE BB; Stable / CARE A4; ISSUER NOT COOPERATING*	-	1)CARE BB+; Positive / CARE A4+ (07-Nov-23)	1)CARE BB+; Positive / CARE A4+ (09-Sep-22)	1)CARE BB+; Stable / CARE A4+ (11-Jan-22)
2	Fund-based - LT/ ST-Cash Credit	LT/ST	5.00	CARE BB; Stable / CARE A4; ISSUER NOT COOPERATING*	-	1)CARE BB+; Positive / CARE A4+ (07-Nov-23)	1)CARE A4+ (09-Sep-22)	1)CARE A4+ (11-Jan-22)

\*Issuer did not cooperate; based on best available information.

LT/ST: Long term/Short term

**Annexure-3: Detailed explanation of covenants of rated instruments/facilities:** Not applicable**Annexure-4: Complexity level of instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT/ ST-Cash Credit	Simple
2	Non-fund-based - LT/ ST-Bank Guarantee	Simple

**Annexure-5: Lender details**

To view the lender wise details of bank facilities please [click here](#)

**Note on complexity levels of rated instruments:** CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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**About us:**

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