Aarneel Technocrafts Private Limited

February 13, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	23.20 (Reduced from 31.20)	CARE BBB+; Stable	Reaffirmed
Short Term Bank Facilities	15.00	CARE A2	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to bank facilities of Aarneel Technocrafts Private Limited (ATPL) continue to remain underpinned from experienced and resourceful promoters (being promoters of Dilip Buildcon Limited [DBL]) along with the presence of a long-term off-take agreement with DBL with price escalation clause. Ratings also factor in stable scale of operations with improvement in profitability, moderate debt coverage indicators, and adequate liquidity position. Ratings also factor in presence of a debt service reserve account (DSRA) equivalent to one-quarter of debt servicing obligations along with favorable demand outlook for the sector due to the thrust of the government on infrastructure development.

The rating is, however, constrained on account of the susceptibility of profitability to raw material price fluctuations, the moderate scale of operations, client concentration risk, the working capital-intensive nature of operations, and interest rate fluctuation risk.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significant improvement in its scale of operations along with improvement in its profit before interest, lease rentals, depreciation and taxation (PBILDT) margin above 10.50% on a sustained basis.
- Growth in scale of operations above ₹500 crore while maintaining comfortable capital structure

Negative factors

- Any change in stance of promoters of DBL to support ATPL
- Sustained decline in TOI and profitability leading to DSCR falling below 1.50x.
- Any large debt funded capex leading to deterioration in debt coverage indicators from current levels
- Any change in off-take agreement with DBL leading to deterioration in credit profile.
- Any adverse movement in the business/financial risk profile of DBL leading to significant reduction in order inflow from DBL.

Analytical approach

Standalone, while factoring operational linkages with DBL

Outlook: Stable

The stable outlook assigned to bank facilities of ATPL is underpinned by operational linkages with DBL, ensuring healthy sales off-take and revenue visibility going forward and presence of adequate liquidity.

Detailed description of the key rating drivers:

Key Strengths

Strategic operational linkages along with long term off-take agreement with DBL

ATPL has entered into a supply agreement with DBL dated March 27, 2021, for supplying highway infrastructure components worth ₹915 crore for a period of five years commencing from April 01, 2021, with a credit period of 30 days from the date of delivery of products. Furthermore, DBL will have to off-take a minimum order value of ₹150 crore per annum.

DBL is a listed company having over three decades of experience in the infrastructure and construction sector. It is one of the largest players in the Indian road construction sector, in terms of the scale of operations and size of order book. During FY24, sales to DBL constituted 80% of the total sales of ATPL.

[1]Complete definition of ratings assigned are available at www.careedge.in and other CARE Ratings Limited's publications.

Presence of a price escalation clause in the off-take agreement
The price of the key raw material, hot-rolled coils, which accounts for the majority of the raw material cost, is volatile. Any volatility in the availability and prices of hot-rolled coils in a competitive market will significantly affect the company's operating profit margin. However, the same has been mitigated to an extent by way of a price escalation clause in the supply agreement.

Experienced and resourceful promoters
The erstwhile promoters of the company, Samit Holkar (BE-Mechanical), aged 48 years, and Piyush Jain (MBA-Finance), aged 39 years, have a reasonable amount of experience in the industry and have established strong business relationships with DBL, which has resulted in a steady inflow of orders and funding support over the years.

The promoters of DBL have acquired a stake in ATPL as a backward integration unit to DBL by way of a merger with one of the parent entities, Ancile Industries Private Limited, thereby maintaining input costs and quality in the manufacturing of highway infrastructure components. Post-acquisition, Dilip Suryavanshi and Devendra Jain hold 65% and 35%, respectively, in ATPL.

Moderate capital structure and debt coverage indicators
The capital structure of ATPL improved during FY24 marked by an overall gearing of 0.79x as on March 31, 2024, as against 1.26x as on March 31, 2023, primarily on account of scheduled repayment of debt and gradual augmentation of net worth base. The total debt (TD) comprises of unsecured loans from the promoters, term loans from banks, and working capital facilities. The debt coverage remained moderate marked by interest coverage of 3.73x. Company has also maintained DSRA equivalent to one quarter amounting to ₹3.46 crore.

Various initiatives undertaken by the Government of India (GoI) to improve the prospects of the infrastructure sector
ATPL is engaged in the manufacturing of highway furniture and related products like light poles, road signages, metal beam crash barriers, thermoplastic road marking paint, etc, which find use in the infrastructure sector, mainly in the construction of roads and bridges. Hence, an increase in the construction of roads and bridges across India will fuel the growth of ancillary-producing companies like ATPL. The infrastructure sector is a key driver responsible for propelling India's overall development and it thereby enjoys intense focus from the government for initiating policies that will ensure a timebound creation of world-class infrastructure in the country. The GoI is thereby expected to invest highly in the infrastructure sector, mainly highways, renewable energy, and urban transport.

Key Weaknesses

Moderate scale of operations albeit improvement in profitability during FY24
ATPL's The scale of operations of ATPL continues to remain moderate. The total operating income (TOI) of the company remained stable at ₹191.95 crore in FY24 as against ₹212.58 crore during FY23. The operating profitability marked by PBILDT margin improved from 6.31% during FY23 to 7.01% during FY24 due to softening of raw-material prices.
During 9MFY25 (provisional; refers to the period from April 1 to December 31), ATPL reported total sales of ₹186 crore. Going forward, growth in the scale of operations as envisaged shall remain key rating monitorable.
Furthermore, under the Madhya Pradesh Investment Promotion Scheme 2014, the Government of Madhya Pradesh had sanctioned ₹13.86 crores as Investment Promotion Assistance in the form of Capital subsidy to the Company for its investments made in Plant & Machinery. Out of the total sanctioned subsidy, company has received ₹3.96 crores in FY24.

Client concentration risk
ATPL's client concentration on DBL has increased from 75% in FY23 to 80% in FY24. ATPL has started catering to other players in the industry, with a revenue contribution of 20% during FY23. Going forward, ATPL's major customer is likely to be DBL, however, ATPL endeavours to procure orders from the market and reduce the client concentration by allowing credit period to other customers also. Any adverse impact on the credit profile of DBL resulting into lower order inflow to ATPL shall remain one of the rating sensitivity. During 9MFY24, sales to DBL constituted 58% of the total sales of ATPL.

Working capital-intensive nature of operations with interest rate fluctuation risk
ATPL operates in a working capital-intensive operations industry, wherein, the company is required to maintain a considerable amount of inventory both, in terms of raw materials and finished goods, typically for 45-50 days, to cater to the growing demand. During FY24, the GCA days remained stable at the level of 116 days (PY: 120 days) along with working capital cycle of 45 days (PY: 39 days).

Furthermore, ATPL will remain exposed to variations in interest rates during the repayment period on the debt availed, owing to interest rate resets, which will be carried out by the lender periodically. As a result, the steep increases in interest rates will subject the company to lower cash accruals.

Liquidity: Adequate

The adequate liquidity is marked by healthy cash accruals of ₹10-11 crore over FY25-26 each as against term loan repayment obligations of ₹6.40 - ₹6.60 crore during the corresponding period. Furthermore, the presence of a DSRA amounting to ₹3.46 crore as on December 31, 2024, sufficient to cover one-quarter of debt and interest obligations, provides an added cushion to the liquidity. The average fund-based utilization for the trailing 12 months ending on December 31, 2024, remained moderate at 80%.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks: Not applicable

Applicable criteria

Definition of Default
Factoring Linkages Parent Sub JV Group
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Short Term Instruments

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Industrials	Capital goods	Industrial products	Other industrial products

ATPL is engaged in the manufacturing of road furniture like light poles, road signages, metal beam crash barriers, thermo plastic road marking paints, etc, at its manufacturing facility located in Pitampur, Madhya Pradesh. It was initially established as a proprietary entity by Samit Holkar, and subsequently, a minority stake was acquired by Piyush Jain in 2011. He has an experience of almost a decade in the similar line of business. The promoters of DBL, i.e., Dilip Suryavanshi and Devendra Jain acquired stake in ATPL during FY22 by way of a merger of ATPL into Ancile Industries Private Limited (the promoter entity). The name of Ancile Industries Private Limited has now been changed to Aarneel Technocrafts Private Limited (ATPL). The idea behind the acquisition was to setup a backward integrated company for DBL, which is primarily into infrastructure development, to control input costs.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)
Total operating income	212.58	191.95
PBILDT	13.42	13.45
PAT	5.10	8.89
Overall gearing (times)	1.26	0.79
Interest coverage (times)	3.34	3.73

A: Audited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	15.00	CARE BBB+; Stable
Fund-based - LT-Term Loan		-	-	30-03-2026	8.20	CARE BBB+; Stable
Non-fund-based - ST-Letter of credit		-	-	-	15.00	CARE A2

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	Fund-based - LT-Term Loan	LT	8.20	CARE BBB+; Stable	-	1)CARE BBB+; Stable (19-Jan-24)	1)CARE BBB+; Stable (21-Oct-22)	1)CARE BBB+; Stable (03-Aug-21)
2	Fund-based - LT-Cash Credit	LT	15.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (19-Jan-24)	1)CARE BBB+; Stable (21-Oct-22)	1)CARE BBB+; Stable (03-Aug-21)
3	Non-fund-based - ST-Letter of credit	ST	15.00	CARE A2				

LT: Long term; ST: 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-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - ST-Letter of credit	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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