

September 23, 2022

Aarvee Associates Architects Engineers & Consultants Pvt. Ltd.: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based Cash credit limits	40.00	40.00	[ICRA]A(Stable); Reaffirmed
Fund based term loans	0.81	15.00	[ICRA]A(Stable); Reaffirmed/Assigned
Non Fund based limits	113.40	138.40	[ICRA]A(Stable)/[ICRA]A2+; Reaffirmed/Assigned
Unallocated limits	5.99	3.45	[ICRA]A(Stable)/[ICRA]A2+; Reaffirmed
Total	160.20	196.85	

*Instrument details are provided in Annexure I

Rationale

The reaffirmation of ratings factors in the strong operational track record of Aarvee Associates Architects Engineers Consultants Private Limited (AAPL) in providing consultancy services across diverse sectors including highways, railways, water supply, irrigation, and urban infrastructure among others. The ratings derive comfort from the healthy order book position providing medium-term revenue visibility. The ratings factor in the company's comfortable financial risk profile with TOL/TNW of 0.9 times and interest coverage ratio of 4.8 times in FY2022. With expected improvement in scale of operations and consequent impact on operating leverage, the operating margins and coverage indicators are likely to improve going forward. The ratings also factor in AAPL's diversified and reputed client profile comprising National Highway Authorities of India (NHAI), Rail Vikas Nigam Limited (RVNL), Ministry of Road Transport & Highways (MORTH), National High Speed Rail Corporation Limited (NHSRCL), and Dedicated Freight Corridor Corporation of India (DFCCIL), etc.

The ratings, however, are constrained by the company's high working capital intensity, owing to high receivables and sizeable tax credits (income tax and GST credits). Further, the company has Rs. 26.21 crore of receivables, which are pending for more than a year from an overseas project executed in FY2021. The reduction in working capital intensity along with overall improvement in liquidity position remains a key monitorable from the credit perspective. The ratings are constrained by the intense competition prevailing in the domestic infrastructure consultancy projects, as characterised by the presence of several large and established consulting players, leading international consultants and numerous boutique firms, which limit the pricing flexibility. ICRA notes the employee-intensive nature of the consulting business and the challenges associated with the retention of key personnel.

The Stable outlook on the company's long-term rating reflects ICRA's opinion that AAPL would continue to benefit from established track record, reputed clientele base and healthy orderbook position.

Key rating drivers and their description

Credit strengths

Established track record in the engineering consulting business – AAPL has extensive experience spanning more than 30 years in providing engineering consultancy services across various sectors including highways and railways segment. The company's core competency lies in providing consultancy services in highways supervision, preparation of detailed project reports (DPR)

for highways, railways, environment and water supply, irrigation, urban planning, buildings, geo-spatial investigations and power segments.

Healthy order book providing revenue visibility – The company's order book position improved to Rs. 1,508.1 crore as on March 31, 2022 from Rs. 1,245 crore as on March 31, 2021 due to healthy order addition. The OB/OI ratio stood healthy at 3.9 times of FY2022 revenues providing medium-term revenue visibility. The railways and highway segments account for predominant share of the order book. Healthy order addition and execution are expected to support near-term revenue growth.

Comfortable capital structure and coverage metrics – AAPL's capital structure remains comfortable with TOL/TNW of 0.9 times as on March 31, 2022. As on March 31, 2022, the company's debt consisted of Rs. 25.9 crore of working capital borrowings, Rs. 18.5 crore of term loans, Rs. 9.50 crore of unsecured loans from directors. The coverage metrics are healthy with interest coverage of ~4.8 times in FY2022. With expected improvement in scale of operations and consequent impact on operating leverage, the operating margins and coverage indicators are likely to improve going forward.

Credit challenges

High working capital intensity – The working capital intensity is high owing to high debtors and sizeable tax credits (Rs. 54.0 crore as on March 31, 2022). The debtor days remained high at 102 days FY2022 with major billing in Q4 FY2022 and delay in payments from few state government agencies. Further, the company provided pre-bid and design services to an international project in FY2021 and had pending receivable worth Rs. 26 crore as of March 2022. However, prompt payments from the highway supervision and railway division will support its liquidity position.

Competition from established local, multinational and boutique firms constraining operating margins – The company faces competition from several large consulting companies including Consulting Engineering Group Ltd (CES), RITES Limited, Louis Berger, Lea Associates South Asia ([ICRA]A+(Stable)/[ICRA]A1), Systra, Aecom, etc. Strong technical expertise as well as established track record of operations has supported AAPL's revenues and profitability margins over the years. Further, the operating margins improved to 16% in FY2022 on the back of increased revenues and lower bad debts. In FY2021, the company has written off Rs. 9.7 crore as against nil in FY2022.

Employee-intensive nature of consulting business – Employee retention remains crucial given the high costs associated with training its employees for execution of projects. Further, the projects require employees with specific skills to be deployed for projects, exposing AAPL to risks arising from employee retention. The company's ability to retain talent remains crucial for maintaining its competitive position, as most of the projects are awarded based on the technical expertise of key personnel and past track record of project execution. AAPL's employees include civil, mechanical, electrical and electronic engineers and architects. It has a satisfactory track record of retaining key management mitigating the employee retention risk to an extent.

Liquidity position: Adequate

The company's liquidity position is adequate with cushion of ~Rs. 19.8 crore in working capital limits as on July 31, 2022. Further, the cash flow from operations would be sufficient for the moderate capex plans and repayment obligations of ~Rs. 1.52 crore in FY2023. Overall, ICRA expects that AAPL would be able to meet its debt obligations and manage its working capital requirements comfortably through internal sources of cash.

Rating sensitivities

Positive factors – The ratings are likely to be upgraded if the company demonstrates a significant scaleup in revenues while improving profitability margins and reduction in working capital intensity resulting in improvement in debt coverage metrics and liquidity position. Specific credit metrics that could lead to an upgrade, include interest cover of more than 6.0 times on a sustained basis.

Negative factors – Pressure on the ratings could emerge in case there is any material decline in revenues or profitability indicators or any increase in working capital intensity leading to weakened liquidity position. A weakening in interest coverage ratio to below 4.0 times on a sustained basis may exert negative pressure on the company's ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Established in 1989, AAPL is a multi-disciplinary engineering consulting company offering design and engineering consultancy and project management services primarily within the infrastructure space. It provides consulting services across a diverse range of sub-sectors within the infrastructure segment such as highways, railways, ports, power, urban infrastructure development, water resources development and irrigation, environmental engineering services and geospatial solutions. The company enjoys a pan-India presence, with branch offices in New Delhi, Bhubaneswar and Ahmedabad and several project offices in all the major states across the country.

Key financial indicators

Standalone	FY2021	FY2022
	Audited	Provisional
Operating income (Rs. crore)	288.8	330.3
PAT (Rs. crore)	21.8	28.9
OPBDIT/OI (%)	14.3%	16.8%
PAT/OI (%)	7.5%	8.8%
Total outside liabilities/Tangible net worth (times)	0.7	0.9
Total debt/OPBDIT (times)	1.3	1.0
Interest coverage (times)	4.6	4.8

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Source: Company

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Sep 23, 2022	June 11, 2021	April 06, 2020	-
1	Cash credit	Long-term	40.00	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Negative)	-
2	Term loans	Long-term	15.00	15.00	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Negative)	-
3	Non fund limits	Long-term/Short term	138.40		[ICRA]A (Stable)/[ICRA] A2+	[ICRA]A (Stable)/[ICRA] A2+	[ICRA]A (Negative)/[ICRA] A2+	
4	Unallocated limits	Long-term/Short term	3.45		[ICRA]A (Stable)/[ICRA] A2+	[ICRA]A (Stable)/[ICRA] A2+		

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term Fund based- Cash credit	Simple
Long term Fund based- Term loans	Simple
Long term/ Short-term-Non Fund based limits	Very Simple
Long-term/Short term -Unallocated limits	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long term-Cash credit	NA	NA	NA	40.00	[ICRA]A(Stable)
NA	Long term-Term loans	March 2019	NA	June 2025	15.0	[ICRA]A(Stable)
NA	Long term/Short-term-Non-fund based limits	NA	NA	NA	138.40	[ICRA]A(Stable)/[ICRA]A2+
NA	Unallocated limits	NA	NA	NA	3.45	[ICRA]A(Stable)/[ICRA]A2+

Source: Company;

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis- Not Applicable

ANALYST CONTACTS

Rajeshwar Burla
+91 40 4067 6527
rajeshwar.burla@icraindia.com

Vinay Kumar G
+91 40 4067 6533
vinay.g@icraindia.com

Ashish Modani
+91 22 6114 3414
ashish.modani@icraindia.com

Doddapanani Bhavya
+91 40 4067 6519
doddapanani.bhavya@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)
info@icraindia.com

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ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45



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