October 09, 2023

Aarvee Associates Architects Engineers & Consultants Pvt. Ltd.: Ratings upgraded to [ICRA]A+(Stable)/[ICRA]A1; rated amount enhanced.

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Cash credit limits	40.00	45.00	[ICRA]A+(Stable); upgraded from [ICRA]A (Stable) and assigned for enhanced amount
Long-term – Fund-based – Term loans	15.00	16.00	[ICRA]A+(Stable); upgraded from [ICRA]A (Stable) and assigned for enhanced amount
Long-term/Short-term – Non-fund based limits	138.40	163.40	[ICRA]A+(Stable)/[ICRA]A1; upgraded from [ICRA]A (Stable)/[ICRA]A2+ and assigned for enhanced amount
Long-term/Short-term – Unallocated limits	3.45	7.79	[ICRA]A+(Stable)/[ICRA]A1; upgraded [ICRA]A (Stable)/[ICRA]A2+ and assigned for enhanced amount
Total	**196.85**	**232.19**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings upgrade for Aarvee Associates Architects Engineers Consultants Private Limited (AAPL) factors in the improvement in its scale of operations and coverage metrics, which is expected to sustain going forward. AAPL's order book remains strong at Rs. 1,653 crore (order book to operating income ratio of 3.2 times), which provides healthy medium-term revenue visibility. The ratings note its strong operational track record in providing consultancy services across diverse sectors including highways, railways, water supply, irrigation and urban infrastructure, among others. The ratings consider its diversified and reputed client profile comprising the National Highway Authorities of India (NHAI), Rail Vikas Nigam Limited (RVNL), Ministry of Road Transport and Highways (MoRTH), National High Speed Rail Corporation Limited (NHSRCL) and Dedicated Freight Corridor Corporation of India (DFCCIL), etc. The ratings factor in the company's comfortable financial risk profile with TOL/TNW estimated to be 0.7-0.8 times and interest coverage ratio of 6.5-7.0 times in FY2024e. With expected improvement in its scale of operations and healthy operating margins, the coverage indicators are likely to remain comfortable going forward.

The ratings, however, are constrained by the company's high working capital intensity owing to elongated receivables and sizeable tax credits (income tax and GST credits). Further, it had Rs. 45.8 crore of receivables as on March 31, 2023, which are pending for more than six months. Out of this, Rs. 26.21 crore was pending from Within Foundation, for which AAPL provided pre-bid and design services in FY2021. Any write-off of these receivables impacting the profitability and net worth position would remain a key monitorable. The ratings are constrained by the intense competition prevailing in the domestic engineering 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 its healthy order book position and comfortable leverage and coverage indicators.

Key rating drivers and their description

Credit strengths

Established track record in engineering consulting business – AAPL has extensive experience spanning more than three decades 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. 1,653.5 crore as on March 31, 2023 from Rs. 1,508.1 crore as on March 31, 2022 due to healthy order addition. The OB/OI ratio stood healthy at 3.2 times of FY2023 revenues providing medium-term revenue visibility. The railways and EWS segments account for predominant share of the order book.

Comfortable financial risk profile – AAPL's capital structure remains comfortable with TOL/TNW of 0.7 times as on March 31, 2023. As on March 31, 2023, the total debt stood at Rs. 54.0 crore, which comprised Rs. 29.0 crore of working capital borrowings, Rs. 22.0 crore of term loans and GECL loans and Rs. 3.0 crore of unsecured loans from directors. The coverage metrics remained healthy with interest cover of 6.4 times and TD/OPBITDA of 0.9 times in FY2023. With expected improvement in its scale of operation and healthy operating margins, the coverage indicators are likely to remain comfortable going forward.

Credit challenges

High working capital intensity – The working capital intensity is high owing to sizeable debtors and tax credits (income tax and GST). The debtor days remained high at 100 days for FY2023 with major billings in Q4 FY2023 and sizeable debtors (pending for more than 6 months) worth Rs. 45.81 crore as on March 31, 2023. Out of this, Rs. 26.21 crore was pending from Within Foundation, for which the company had provided pre-bid and design services in FY2021. Any write-off of these receivables impacting the profitability and net worth position would remain a key monitorable. The average utilisation of working capital facility stood at 75% for the last twelve months that ended in July 31, 2023. The liquidity position was supported by prompt payments from the highway supervision and railway division.

Competition from established local, multinational and boutique firms constraining pricing flexibility – The company faces stiff 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 supported AAPL's revenues and profitability margins over the years.

Exposed to industry specific challenges like high employee attrition and exposure to macro-economic scenario as capex spends are cyclical in nature – 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 the 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.
The company's revenues are likely to remain dependent on large capex-driven projects in both domestic and overseas markets. Slower pace of growth in capex spending rate in capital-intensive sectors, such as highways, railways, energy and oil, could impact revenue visibility in the short term.

Liquidity position: Adequate

The company's liquidity position is adequate with free cash balances of Rs. 23.4 crore and cushion of ~Rs. 16.1 crore in working capital limits as on March 31, 2023. Further, the cash flow from operations would be sufficient for low capex plans and repayment obligations of ~Rs. 4.6 crore in FY2024. Overall, ICRA expects that AAPL would be able to meet its debt obligations and manage its working capital requirements comfortably from its cash flows.

Rating sensitivities

Positive factors – The ratings are likely to be upgraded if the company is able to significantly scale up its revenues while improving the business diversification and profitability margins, along with substantial reduction in working capital intensity resulting in improved debt coverage metrics and liquidity position 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. Deterioration in interest coverage ratio to below 6.0 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 major states across the country.

Key financial indicators (audited)

Standalone	FY2022	FY2023
Operating income	329.2	433.9
PAT	26.9	35.5
OPBDIT/OI	14.6%	14.3%
PAT/OI	8.2%	8.2%
Total outside liabilities/Tangible net worth (times)	0.9	0.7
Total debt/OPBDIT (times)	1.1	0.9
Interest coverage (times)	6.7	6.4

Source: ICRA Research, Company; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on August 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					Oct 09, 2023	Sep 23, 2022	Jun 11, 2021	Apr 06, 2020
1	Cash credit	Long-term	45.00	-	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Negative)
2	Term loans	Long-term	16.00	16.00	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Negative)
3	Non-fund limits	Long-term/Short term	163.40	-	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA] A2+	[ICRA]A (Stable)/ [ICRA] A2+	[ICRA]A (Negative)/ [ICRA] A2+
4	Unallocated limits	Long-term/Short term	7.79	-	[ICRA]A+ (Stable)/ [ICRA]A1	[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: Click Here.

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	45.00	[ICRA]A+ (Stable)
NA	Long-term – Term loans	March 2019	NA	June 2025	16.00	[ICRA]A+ (Stable)
NA	Long-term/Short-term – Non-fund based limits	NA	NA	NA	163.40	[ICRA]A+(Stable)/[ICRA] A1
NA	Unallocated limits	NA	NA	NA	7.79	[ICRA]A+(Stable)/[ICRA] A1

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

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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