

January 10, 2025

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
Long-term – Fund-based – Cash credit limits	45.00	45.00	[ICRA]A+(Stable); reaffirmed
Long-term – Fund-based – Term loans	16.00	8.87	[ICRA]A+(Stable); reaffirmed
Short-term – Fund based – Working capital term loan	-	10.0	[ICRA]A1; assigned
Long-term/Short-term – Non-fund based limits	163.40	203.40	[ICRA]A+(Stable)/ [ICRA]A1; reaffirmed and assigned for enhanced amount
Long-term/Short-term – Unallocated limits	7.79	14.92	[ICRA]A+(Stable)/ [ICRA]A1; reaffirmed & assigned for enhanced amount
Total	232.19	282.19	

*Instrument details are provided in Annexure-I

Rationale

The reaffirmation of ratings for Aarvee Associates Architects Engineers & Consultants Pvt. Ltd. (AAPL) factors in the healthy growth in operating income (OI) of 15.9% in FY2024, supported by healthy order execution, coupled with expectation of sustenance of the same in the near term on the back of a strong order book (OB) position of Rs. 1,800 crore as on August 31, 2024, which translates to an (OB/OI) of 3.1 times. The financial risk profile remains healthy with TOL/TNW of 0.4 times as on March 31, 2024, and interest cover of 8.2 times in FY2024. The same is expected to remain strong due to healthy operating margins and low leverage levels. The ratings note AAPL's strong operational track record in providing consultancy services across diverse sectors including highways, railways, water supply, irrigation and urban infrastructure, among others, diversified order book profile and reputed client profile comprising the National High Speed Rail Corporation Limited (NHSRCL), Chennai Metro Rail Limited (CMRL), Rail Vikas Nigam Limited (RVNL), National Highway Authorities of India (NHAI), Ministry of Road Transport and Highways (MoRTH), and Dedicated Freight Corridor Corporation of India (DFCCIL), etc.

The ratings are, however, constrained by the company's high working capital intensive nature of business owing to elongated receivable cycle with sizeable debtors at Rs. 67.2 crore (46% of total debtors) over six months as on March 31, 2024. Although it declined to Rs. 48.7 crore as on October 31, 2024, Rs. 26.21 crore is likely to be written off in FY2025, due to non-payment by an export client based out of Africa. Therefore, any material write-offs/provisioning towards debtors impacting the financial profile materially on an ongoing basis remains a key monitorable. The ratings are constrained by the intense competition prevailing in the domestic engineering consultancy business, as characterised by the presence of several large and established consulting players, leading international consultants and numerous boutique firms, which limits the pricing flexibility. ICRA notes the employee-intensive nature of the consulting business, and the challenges associated with the retention of key personnel, mainly in times of business buoyancy.

The Stable outlook on the company's long-term rating reflects ICRA's opinion that AAPL would benefit from its strong order book position, healthy execution capability and comfortable leverage and coverage metrics in absence of any debt-funded capex plans.

Key rating drivers and their description

Credit strengths

Healthy order book position providing revenue visibility – The company's order book position improved to Rs. 1,803.7 crore as on August 31, 2024 from Rs. 1,653.5 crore as on March 31, 2023 due to healthy order addition. The OB/OI ratio stood healthy at 3.1 times of FY2024 revenues providing medium-term revenue visibility. Although the railways and water supply segments accounts for a predominant share of the order book, the order book is diversified with presence in over 10 sectors. Further, the revenues grew to Rs. 503.3 crore in FY2024 from Rs. 288.1 crore in FY2021, supported by healthy order execution and order book position, which is expected to sustain in the near term.

Comfortable financial risk profile – AAPL's capital structure remains comfortable with TOL/TNW of 0.4 times as on March 31, 2024 and interest cover of 8.2 times in FY2024. The company's total debt stood at Rs. 28.4 crore, which comprised GECL/term loans of Rs. 19.4 crore, working capital borrowings of Rs. 8.4 crore and unsecured loans of Rs. 0.5 crore as on March 31, 2024. In absence of any debt-funded capex plans, the debt levels are expected to remain at range-bound levels, thereby supporting the coverage and leverage metrics in the medium term.

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.

Credit challenges

High working capital intensity – The business remains working capital intensive with the net working capital/operating income at 38.5% in FY2024 owing to elongated receivables, sizeable tax credits (income tax, GST credits) and supplier advances. The receivable days were high at 90 days in FY2024 with sizeable debtors of Rs. 67.2 crore more than six months as on March 31, 2024. Although it declined to Rs. 48.7 crore as on October 31, 2024, out of this, Rs. 26.21 crore is pending from an African entity named Within Foundation for more than three years, for which AAPL provided pre-bid and design services in FY2021. As the project did not take off, the same is likely to be written off, which will impact the margins. Any material write-offs/provisioning towards debtors impacting the financial profile materially on an ongoing basis remains a key monitorable. The average utilisation of working capital facility rose to 84% in the last eight months that ended in November 2024 on account of increased inventory levels. However, timely receipt of payments from project supervision is expected to support its liquidity position.

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. Nevertheless, strong technical expertise as well as established track record of operations supported AAPL's revenues, diversified order book profile 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, employees with specific skills are 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, EWS, could impact revenue visibility in the short term.

Liquidity position: Adequate

The company's liquidity position is adequate with free cash balances of ~Rs. 10.0 crore as on November 30, 2024. Although the average utilisation of working capital limits is higher at 84% for the last eight months that ended in November 2024, timely receipt of payments from project supervision is expected to support its liquidity position. Further, the cash flow from operations would be sufficient, given its limited capex requirements and low repayment obligations in the near to medium term.

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 and several project offices in all major states across the country.

Key financial indicators (audited)

Standalone	FY2023	FY2024
Operating income	433.9	503.0
PAT	35.5	44.3
OPBDIT/OI	14.3%	13.8%
PAT/OI	8.2%	8.8%
Total outside liabilities/Tangible net worth (times)	0.7	0.4
Total debt/OPBDIT (times)	0.9	0.4
Interest coverage (times)	6.2	8.2

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current rating (FY2025)			Chronology of rating history for the past 3 years		
	Type	Amount Rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & Rating in FY2022
			Jan 10, 2025	Oct 09, 2023	Sep 23, 2022	Jun 11, 2021
1 Cash credit	Long-term	45.00	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
2 Term loans	Long-term	8.87	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
3 Working capital term loan	Short Term	10.0	[ICRA]A1	-	-	-
4 Non-fund limits	Long-term/Short term	203.40	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA] A2+	[ICRA]A (Stable)/ [ICRA] A2+
5 Unallocated limits	Long-term/Short term	14.92	[ICRA]A+ (Stable)/ [ICRA]A1	[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
Short-term – Fund based – Working capital term loan	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	8.87	[ICRA]A+ (Stable)
NA	Working capital term loan	NA	NA	NA	10.0	[ICRA] A1
NA	Long-term/Short-term – Non-fund based limits	NA	NA	NA	203.40	[ICRA]A+(Stable)/[ICRA] A1
NA	Unallocated limits	NA	NA	NA	14.92	[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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