

Aarvee Associates Architects Engineers & Consultants Pvt. Ltd.

February 01, 2019

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term: Fund based limits – Term Loan	1.80	1.80	[ICRA]A+ (Stable) reaffirmed
Long term: Fund Based Limits	25.00	30.00	[ICRA]A+ (Stable) reaffirmed
Long/Short Term: Non-Fund Based Limits	93.40	113.40	[ICRA]A+ (Stable)/ [ICRA]A1 reaffirmed
Total	120.20	145.20	

* -Instrument details are provided in Annexure 1

Rationale

The ratings reaffirmation factors in established track record of AAPL in providing engineering consulting services across various sectors including highways (~49.2% of FY2018 revenues), railways (~23.8%), water supply (~11.1%), irrigation (6.6%), urban infrastructure, GIS and power segments; and improvement in order book to Rs. 935.26 crore as on November 30, 2018 providing medium term revenue visibility. The ratings also factor in significant improvement in revenues by 16.7% in FY2018 to Rs. 306.1 crore and to Rs. 163.1 crore in H1FY2019 on the back of improved order execution across all divisions; and strong financial risk profile with gearing of 0.4 times and TOL/ TNW at 0.8 times as on March 31, 2018, interest coverage at 9.5 times and NCA/Debt at 59% in FY2018.

The ratings are however constrained by moderate working capital intensity owing to high receivables predominantly from government and PSU entities; high average working capital utilisation of ~90% during the twelve-month period ending November 2018 and competition from established local, multinational and boutique firms constraining the operating margins. The ratings are also constrained by the employee intensive nature of consulting business, continuous de-growth in profit per employee and challenges associated with the retention of key personnel.

Going forward, timely execution of the order book position and managing working capital requirements remains key credit monitorables.

Outlook: Stable

The 'Stable' outlook reflects ICRA belief that AAPL's revenues will show significant improvement aided by strong orderbook position while the financial risk profile is expected to be comfortable with low gearing and strong coverage metrics. The outlook may be revised to 'Positive' in case of improved order execution along with improvement in margins or in case of improvement in receivable cycle. The outlook may be revised to 'Negative' in case of slower than expected order execution, lower operating margins or increase in receivables deteriorating liquidity position.

Key rating drivers

Credit strengths

Established track record in consulting business: AAPL has experience of more than 25 years in engineering consultancy across various sectors including highways and railways segment. AAPL's core competency lies in providing consultancy services in diverse segments including highways supervision, highways – DPR, railways, environment and water supply, irrigation, urban planning, buildings, geo spatial investigations and power segments.

Healthy orderbook of Rs. 935.26 crore provides revenue visibility: The order book position improved to Rs. 935.26 as on November 30, 2018 from Rs. 763.22 crore as on November 30, 2017 aided by fresh orders especially in highways, railways and irrigation segments. The OB/OI ratio is 3.06 times of FY2018 revenues providing medium term revenue visibility. Highways and railways continues to be the focus areas contributing to ~76.8% of orderbook on the back of government impetus on infrastructure activities and increased budgetary allocation in railways segment.

Diversified customer base: The customer concentration risk remains low with top 5 customers contributing to ~20.9% of revenues during H1 FY2019. Also with majority of these customers being government and PSU entities, the counter party credit risk is minimised. Further, the company has executed repeat orders for clients reflecting positively on the execution capabilities.

Comfortable capital structure and strong coverage metrics: Despite increase in debt levels availed to fund capex and working capital requirements, AAPL's capital structure remains healthy at 0.4 times and TOL/ TNW at 0.8 times as on March 31, 2018. The company's coverage metrics are comfortable with interest coverage of 9.5 times and NCA/Debt at 59.0% during FY2018.

Credit weaknesses

Moderate working capital intensity: The working capital intensity is moderate at 28% in FY2018 owing to high debtor days. The debtor days improved from 101 days in FY2017 to 77 days in FY2018 but remained high with 17% of receivables more than 6 months old as of March 31, 2018. Further, the project management consultancy (PMC) division has monthly billing cycle and lower payment cycle however the payments for the feasibility studies and design projects are received on milestone completion basis resulting in elongated working capital cycle.

Competitive pressures from established local, multinational and boutique firms constraints margin: The company faces competition from several large consulting companies including Consulting Engineering Services (CES), RITES Limited, Louis Berger, Lea Associates South Asia, Renarde, Intercontinental Consultants and Technocrats (ICT). However, high technical expertise as well as strong track record of operations have supported AAPL's revenue growth over the years but operating margins have been moderate at around 10% in the past three years.

Employee intensive nature of consulting business: Employee retention remains crucial given the high costs associated with training its employees for execution of projects. Further, orders require employees with specific skillsets to be deployed for projects exposing AAPL to risks arising from employee retention. The company's ability to retain critical talent remains crucial for maintaining its competitive position as majority of the projects are awarded based on the technical expertise of key personnel and past track record. AAPL employees include civil, mechanical and electrical engineers, and architects. Further, the profit per employee has been on a declining trend over the past two years.

Liquidity Position:

The liquidity position remains moderate despite high working capital limit utilisation of ~90% during the period twelve-month period ending November 2018. Further, the company has received enhancement of its fund based limits which will support the working capital requirements in the near term. Also, AAPL's outstanding cash position stood at Rs. 13.9 crore as on March 31, 2018.

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, Aarvee Associates Architects Engineers & Consultants Pvt. Ltd (AAPL) is an ISO 9001:2008 certified multi-disciplinary engineering consulting company offering design and engineering consultancy and project management services primarily within the infrastructure space. AAPL provides consulting services across a diverse range of sub-sectors within the infrastructure segment like highways, railways, ports, power, urban infrastructure development, water resources development and irrigation, environmental engineering services and geospatial solutions. AAPL has 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 (Audited)

	FY2017	FY2018
Operating Income (Rs. crore)	262.2	306.1
PAT (Rs. crore)	12.4	15.1
OPBDIT/ OI (%)	10.4%	10.6%
RoCE (%)	26.7%	26.3%
Total Debt/ TNW (times)	0.4	0.4
Total Debt/ OPBDIT (times)	1.1	1.0
Interest coverage (times)	5.5	6.4

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Current Rating (FY2019)					Chronology of Rating History for the past 3 years			
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016	
				Feb, 2019	Mar 2018	Nov 2016	Jul 2015	
1	Cash Credit	Long Term	30.00	30.00	[ICRA]A+ (Stable); reaffirmed	[ICRA]A+ (Stable); reaffirmed	[ICRA]A+ (Stable); reaffirmed	[ICRA]A+ (Stable); upgraded
2	Term Loan	Long Term	1.80	1.80	[ICRA]A+ (Stable); reaffirmed	[ICRA]A+ (Stable); reaffirmed	-	-
3	Non-Fund Based Limits	Long/ Short Term	113.40	113.40	[ICRA]A+ (Stable)/ [ICRA]A1; reaffirmed	[ICRA]A+ (Stable)/ [ICRA]A1; reaffirmed	[ICRA]A+ (Stable)/ [ICRA]A1; reaffirmed	[ICRA]A+ (Stable)/ [ICRA]A1; upgraded

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	Mar 2018	9.55%- 9.60%	-	30.00	[ICRA]A+(Stable)
NA	Term Loan	Mar 2018	9.75%	Aug 2020	1.80	[ICRA]A+(Stable)
NA	Bank Guarantee	Mar 2018	-	-	113.40	[ICRA]A+(Stable)/ [ICRA]A1

Source: Company

Annexure-2: List of entities considered for consolidated analysis: NA

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