**Rating Rationale**

**Arun Engineering Projects Pvt Ltd**

**30 July 2018**

**Brickwork Ratings assigns the ratings for the Bank Loan Facilities of ₹ 15.00 Crores of Arun Engineering Projects Pvt Ltd.**

**Particulars**

| Facilities | Limits Rated (₹ Crs) | Tenure | Rating* |
|---|---|---|---|
| **Fund Based:** Cash Credit | **2.50** | **Long Term** | **BWR BB-** (Pronounced as BWR Double B minus) **(Outlook: stable)** |
| **Non Fund Based:** Bank Guarantee | **12.50** | **Short Term** | **BWR A4** (Pronounced as BWR A Four) |
| **Total** | **15.00** | **INR Fifteen Crores Only** | |

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

BWR has essentially relied upon the company's audited financial results up to FY17, publicly available information and clarifications provided by the management.

**Rationale/Description of Key Rating Drivers/Rating sensitivities:**

The rating has inter-alia, factored experience of the promoters in EPC industry for more than two decades, established track record of the company, consistent growth in sales revenue, low gearing, improved net worth and ability to sustain the competitive nature of business in the region. However, the ratings are constrained by volatility in profitability level, dependance of tender based work contract, high receivable days and working capital intensive nature of operations.
Going forward ability of the company to improve its profitability margins, to improve its scale of operations, to manage its working capital efficiently will be the key rating sensitivities.

**Description of Key Rating Drivers**

- **Credit Strengths:**

**Promoters Experience:** All the directors are professionally qualified and have experience in the relevant business for more than 2 decades

**Consistent growth in Sales revenue:** Operating revenue for FY17 was at Rs. 21.60 crs as compared to Rs. 12.53 crs in FY16 and Rs. 9.66 crs in FY15

**Low Gearing:** Gearing of the company has been comfortable y-o-y. Debt equity ratio of the company for FY17 was at 0.52 times as against 1.11 times in FY16

**Growth in Net worth:** Net worth of the company for FY17 stood at Rs. 9.15 crs as compared to Rs. 8.54 crs

- **Credit Risks:**

**Volatility in profit margin:** PAT for FY17 was at Rs. 0.60 crs as compared to Rs. 0.21 crs in FY 16 and Rs. 0.29 crs in FY15, while, Net profit margin for FY17 was at 2.79 percent as against 1.70 percent in FY16 and 3.04 percent in FY15

**Tender based projects:** The company is engaged in the works contract business for government departments and PSUs which are tender based projects, wherein delays are inevitable

**High competition and working capital intensive business:** High competition from many small & medium units in the region. It is working capital intensive nature of business.

**Analytical Approach**

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

**Rating Outlook: *Stable***

BWR believes the **Arun Engineering Projects Pvt Ltd** business risk profile will be maintained over the medium term. The ‘Stable’ outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case the revenues and profit show sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down and profit margins show lower than expected figures.

**About the Company**

Arun Engineering Projects P Ltd (AEPPL) was reconstituted as private limited company on 26th May, 1998 which was initially established as a proprietorship firm during 1972 by late Mr. R A Harry at Bangalore. The company is engaged in providing engineering, procurement and construction services in the water supply and underground drainage water system segment to government departments and PSUs in the region of Karnataka. The management is constituted by three directors, namely Mr. Arun John Greig, Mr. Rajendran Pillai Vincent and Mr. H Ronald Theiban. All the directors are professionally qualified and have business experience of more than 2 decades. The company procures its materials from suppliers located within Bangalore.

**Company Financial Performance**

AEPPL’s operating revenue for FY17 was at Rs. 21.60 crs as compared to Rs. 12.53 crs in FY16. Net worth of the company for FY17 stood at Rs. 9.15 crs as compared to Rs. 8.54 crs. Debt protection matrix has been volatile. ISCR for Fy17 was at 1.55 times as compared to 1.14 times in FY16 and 1.25 times in FY15, While DSCR at 1.38 times for FY17 as compared to 1.14 in FY16 and 1.25 times in FY15.

## Rating History for the last three years

| S.No | Facility | Current Rating (2018) | | | Rating History | | |
|---|---|---|---|---|---|---|---|
| | | Type | Amount (₹ Crs) | Rating | FY 2017 | FY 2016 | FY 2015 |
| | **Fund Based** Cash Credit | Long term | 2.50 | BWR BB- (outlook Stable) | - | - | - |
| | **Non Fund Based** Bank Guarantee | Short term | 12.50 | BWR A4 | - | - | - |
| | **Total** | | **15.00** | **₹ Fifteen Crores Only** | | | |

## Key Financial Indicators

| Key Parameters | Units | 2017 (A) | 2016 (A) |
|---|---|---|---|
| Operating Revenue | ₹ Cr | 21.60 | 12.53 |
| EBITDA | ₹ Cr | 2.45 | 2.06 |
| PAT | ₹ Cr | 0.60 | 0.21 |
| Tangible Net worth | ₹ Cr | 9.15 | 8.54 |
| Total Debt/Tangible Net worth | Times | 0.52 | 1.11 |
| Current Ratio | Times | 1.34 | 1.23 |

## Hyperlink/Reference to applicable Criteria

- General Criteria
- Approach to Financial Ratios
- Infrastructure Sector
- Short Term Debt

| Analytical Contacts | Media |
|---|---|
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**For print and digital media**
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**Note on complexity levels of the rated instrument:**
BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf Investors queries can be sent to info@brickworkratings.com.

**About Brickwork Ratings**
Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a leading public sector bank, as its promoter and strategic partner.

BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations. BWR has rated debt instruments/bonds/bank loans, securitized paper of over ₹ 11,99,663 Cr. In addition, BWR has rated over 6819 MSMEs. Also, Fixed Deposits and Commercial Papers etc. worth over ₹48,803 Cr have been rated.

**DISCLAIMER**