



RATING RATIONALE

4 Nov 2019

Arun Construction

Brickwork Ratings revises/reaffirms ratings for the Bank Loan Facilities of ₹ 16.30 Crores of Arun Construction (Formerly known as Arun Kumar Contractor)

Particulars

Facility	Amount (₹ Crs)		Tenure	Rating*	
	Previous	Present		Previous (Sept, 2018)	Present
Fund based	1.30	3.30	Long Term	BWR B+ (Stable)	BWR BB- (Stable) Upgraded
Non Fund Based	6.70	13.00	Short Term	BWR A4	BWR A4 Reaffirmed
Total	8.00	16.30	INR Sixteen Crores and Thirty Lakhs Only		

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

** Details of Bank facilities in Annexure-I

RATING ACTION / OUTLOOK

Brickwork rating has upgraded the long-term rating of Arun Construction to BWR BB- and reaffirmed the short term rating at BWR A4 with a Stable Outlook on account of vast experience of the proprietor in the same field of undertaking irrigation projects for more than a decade. The rating is further supported by comfortable gearing, above average debt protection metrics, adequate liquidity and moderate profitability.

The ratings have been assigned a stable outlook as there is consistent growth in revenues over the years.

The rating, however, is constrained by moderate scale of operations, exposure to tender based nature of operations, intense competition, highly fragmented industry with geographical and customer concentration risk and constitution of the firm being a proprietorship concern.

KEY RATING DRIVERS

Credit Strengths :

- **Extensive experience of the proprietor in civil construction business :** Proprietor has been undertaking irrigation projects for more than a decade which has enabled him to establish relations with suppliers and various government bodies and to understand the intricacies of the business.
- **Moderate Financial Risk Profile :** Overall Gearing is considered comfortable and is at 2.61X in FY19. The same has increased from FY18 due to enhancement of OD limit and availed fresh term loan in FY19. Debt Protection Metrics are above average i.e. ISCR and DSCR at 9.59X and 7.75X in FY19 owing to substantial improvement in Operating Profitability. The same reflects the firm's ability to timely repay its debt. Profit Margins are also considered moderate i.e Operating Profit Margins and Net Profit Margins are at 9.58% and 8.97% in FY19.
- **Liquidity :** Liquidity is adequate marked by moderate current ratio at 1.58X and 1.21X in FY18 and FY19 respectively depicting that the firm is well positioned to cover its current short term liabilities. Other liquidity indicators also stood moderate as marked by negative Conversion Cycle in FY18 and FY19.

Credit Risks :

- **Moderate Scale of Operation :** The firm reported Total Operating Income amounting Rs.50.04 Cr. in FY19 registering a growth of 117% in FY19. According to the information provided by the management the company has achieved a Revenue of Rs.10.59 Cr. in Q1 and Q2 of FY20 and will cloak a revenue within a range of Rs.80-85 Cr. in FY20 in view of the status of completion of ongoing projects.
- **Exposure to tender based nature of operations and to intense competition :** AC operates in tender-based business and faces competition not only from companies based in Uttar Pradesh and Uttarakhand, but also from other national players who operate in irrigation projects.
- **Highly fragmented industry with geographical and customer concentration risks :** Most of the firm's projects are irrigation projects of Uttarakhand and Uttar Pradesh exposing the firm to geographical and customer concentration risk.
- **Proprietorship constitution :** The firm being a proprietorship concern, is exposed to the inherent risk of the capital being withdrawn at the time of personal contingency which will affect its capital structure.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

BWR has factored in the standalone business parameters and financial risk profile of the company to arrive at the rating. Reference may be made to the Rating Criteria hyperlinked detailed below (hyperlinks provided at the end of this rationale).

RATING SENSITIVITIES

Going forward, the company's ability to increase the scale of the business would be key sensitivity over short to medium term.

Positive: The rating outlook may be revised to positive if the company is able to substantially improve the topline and bottomline.

Negative: The rating may be downgraded if there is a deterioration of profitability and liquidity profile.

LIQUIDITY POSITION (Adequate)

Liquidity position of the firm is adequate marked by current ratio at 1.58X and 1.21X in FY18 and FY19 respectively. Other liquidity indicators also stood adequate as marked by negative Conversion Cycle in FY18 and FY19. Debt Protection Metrics are above average i.e. ISCR and DSCR at 9.59X and 7.75X in FY19 owing to substantial improvement in Operating Profitability. As per banker's feedback CC has been in Credit and BG has been utilized to the extent of 90%. The account has never been in SMA/NPA Category.

COMPANY PROFILE

M/s Arun Constructions was established on 08.02.2006 as a proprietorship concern of Mr. Arun Kumar and is in the business of Engineering Procurement and Construction. The firm is a certified and registered AA Class contractor and also is a renowned civil contractor of entire region. Mr. Arun Kumar is having more than a decade experience in this line which helps the firm to grow steadily. The firm is registered in various government departments, like Municipal corporation and Nagar nigram of Rampur, Bijnor and Amroha. The firm majorly executes irrigation projects and barrage constructions in Uttar Pradesh and Uttarakhand. In FY19 the firm has completed contracts amounting Rs.67.89 Cr. with total revenue of Rs.50.04 Cr. And currently the firm has contracts in hand amounting Rs.99.76 Cr.

KEY FINANCIAL INDICATORS (in INR Cr)

Key Parameters	Units	2019	2018
Result Type			
Operating Revenue	₹ Cr	50.04	23.05
EBITDA	₹ Cr	4.80	1.75
PAT	₹ Cr	4.49	1.71
Tangible Net worth	₹ Cr	9.17	5.15
Total Debt/Tangible Net worth	Times	0.42	0.37

Current Ratio	Times	1.21	1.58
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KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED : NIL

NON-COOPERATION WITH PREVIOUS RATING AGENCY : NA

RATING HISTORY

Instrument /Facility	Current Rating (September, 2019)			Rating History		
	Type (Long Term/ Short Term)	Amount (₹ Crs)	Rating	Aug, 2019	May, 2018	FY17
Fund Based Cash Credit Term Loan	Long Term	3.30	BWR BB-Stable (Upgraded)	-	BWR B+ Stable	-
Non Fund Based Bank Guarantee	Short Term	13.00	BWR A4 (Reaffirmed)		BWR A4	
Total		16.30	₹ Sixteen Crore and Thirty Lakhs Only			

COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

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Arun Construction.

ANNEXURE I

Details of Bank Facilities rated by BWR

Sl. No.	Name of the Bank	Type of Facilities	Long Term (₹ Cr)	ShortTerm (₹ Cr)	Total (₹ Cr)
1	Punjab National Bank	Cash Credit	1.50	-	1.50
2		Term Loan	1.80	-	1.80
3		Bank Guarantee	-	13.00	13.00
TOTAL					16.30

Total Rupees Sixteen Crores and Thirty Lakhs only.

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