

RATING RATIONALE

07 Nov 2019

Arun Engineering Projects Pvt Ltd

Brickwork Ratings Revises/ reaffirms the ratings for the Bank Loan Facilities of ₹ 15.00 Crores of Arun Engineering Projects Pvt Ltd

Particulars:

Facility**	Amount (₹ Cr)		Tenure	Rating*	
	Previous	Present		Previous (July, 2018)	Present
Fund based:					
Cash Credit	2.50	2.50	Long Term	BWR BB- (Stable)	BWR B+ (Stable) (Downgrade)
Non Fund based:					
Bank Guarantee	12.50	12.50	Short Term	BWR A4	BWR A4 (Reaffirm)
Total	15.00	15.00	INR Fifteen Crores Only		

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

** Details of Bank facilities is provided in Annexure-I&II

RATING ACTION / OUTLOOK

Brickwork Ratings downgrades the ratings of BWR BB- to BWR B+ (outlook stable) for the long term facilities of Rs. 2.50 crs and reaffirms BWR A4 for the short term facilities Rs. 12.50 crs of M/s. Arun Engineering Projects Pvt Ltd.

BWR has essentially relied upon the company's audited financial results up to FY18, provisional statement for FY19, projections for FY20 and publicly available information and clarifications provided by the management.



KEY RATING DRIVERS

The rating has inter-alia, factored experience of the promoters in EPC industry for more than two decades, established track record of the company, low gearing, comfortable liquidity position and ability to sustain the competitive nature of business in the region. However, the ratings are constrained by volatility in operating revenue and profitability level, dependance of tender based work contract, high conversion days and working capital intensive nature of operations.

- **Credit Strengths:**

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

Low Gearing: Gearing of the company has been comfortable y-o-y. Debt equity ratio of the company for FY18 was at 0.25 times as against 0.52 times in FY17

Networth of the company: Net worth of the company stood at Rs. 9.26 crs for FY18 as against Rs. 9.15 crs in FY17

Ability to sustain the competitive nature of business: The management has been able to sustain the high competition existing in the EPC industry

- **Credit Risks:**

Volatility in operating revenue and profit level of the business: Revenue from operations for FY18 was at 20.01 crs as against Rs. 21.60 crs in FY17. As per provisional statement for FY19, revenue estimates was at Rs. 12.79 crs. Operating revenue estimates and work on hand details till October 2019, was not furnished by the management

Low scale of operations: Scale of operations has been low in spite of company in the business for more than 2 decades; this is mainly due to the competitive nature of industry

Volatility in profit level with reduced profit margin for FY18: PAT level of the company for FY18 was at Rs. 0.12 crs as compared to Rs. 0.60 crs in FY17. While, Net profit margin for FY18 declined at 0.59 percent as against 2.79 percent in FY17 and Operating profit margin was at 8.35 percent as against 11.36 percent in FY17.



High Conversion cycle Y-o-y of the company: Operating cycle of the company has been stretched Y-o-y. It was at 249 days for FY18 along with elongated inventory days of 234 as against conversion cycle of 201 days with 303 inventory days in FY17

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

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 SENSITIVITIES

Going forward the ability of the company to improve its revenue and profitability margins, to improve its scale of operations, to maintain its financial risk profile and to manage its working capital efficiently will be the key rating sensitivities.

LIQUIDITY POSITION

Company's liquidity level seems comfortable with current ratio of 1.43 times for FY18 as against 1.34 times in FY17.

COMPANY PROFILE

Arun Engineering Projects P Ltd (AEPPL) was reconstituted as a 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.

KEY FINANCIAL INDICATORS (in ₹ Cr)

Key Parameters	Units	FY18	FY17
Result Type		Audited	Audited
Operating Revenue	₹ Crs	20.01	21.60

EBITDA	₹ Crs	1.67	2.45
PAT	₹ Crs	0.12	0.60
Tangible Net worth	₹ Crs	9.26	9.15
Total Debt/Tangible Net worth	Times	0.25	0.52
Current Ratio	Times	1.43	1.34

NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY : None

RATING HISTORY

Facilities	Current Rating (2019)			Rating History		
	Tenure	Amount (₹ Cr)	Rating (Revised)	FY18	FY17	FY16
Cash Credit	Long term	2.50	BWR B+ (Stable) (Downgrade)	BWR BB- (Stable)	-	-
Bank Guarantee	Short term	12.50	BWR A4 (Reaffirm)	BWR A4	-	-
Total		15.00	INR Fifteen Crores Only			

COMPLEXITY LEVELS OF THE INSTRUMENTS

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

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Infrastructure Sector](#)
- [Short Term Debt](#)

Analytical Contacts	Investor and Media Relations
<p>[Suma G] Rating Analyst [Board: +91 80 4040 9940 Ext: 345] [suma.g@brickworkratings.com]</p> <p>[K Nagaraj] [Assoc. Director – Ratings] Board: +91 80 4040 9940 [nagaraj.ks@brickworkratings.com]</p>	<p>Liena Thakur Assistant Vice President - Corporate Communications +91 84339 94686 [liena.t@brickworkratings.com]</p>

Arun Engineering Projects P Ltd

ANNEXURE I

Details of Bank Facilities rated by BWR

Sl. No.	Name of the Bank	Type of Facilities	Amount Rated (₹ Cr)
1	Union Bank of India	Cash credit	2.50
2		Bank Guarantee	12.50
TOTAL			15.00

Total Rupees Fifteen Crores only.

For print and digital media

The Rating Rationale is sent to you for the sole purpose of dissemination through your print, digital or electronic media. While it may be used by you acknowledging credit to BWR, please do not change the wordings in the rationale to avoid conveying a meaning different from what was intended by BWR. BWR alone has the sole right of sharing (both direct and indirect) its rationales for consideration or otherwise through any print or electronic or digital media.



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.

DISCLAIMER

Brickwork Ratings (BWR) has assigned the rating based on the information obtained from the issuer and other reliable sources, which are deemed to be accurate. BWR has taken considerable steps to avoid any data distortion; however, it does not examine the precision or completeness of the information obtained. And hence, the information in this report is presented “as is” without any express or implied warranty of any kind. BWR does not make any representation in respect to the truth or accuracy of any such information. The rating assigned by BWR should be treated as an opinion rather than a recommendation to buy, sell or hold the rated instrument and BWR shall not be liable for any losses incurred by users from any use of this report or its contents. BWR has the right to change, suspend or withdraw the ratings at any time for any reason.