

Press Release

Sattva Engineering Construction Pvt. Ltd.

September 18, 2019

Rating

Sl. No.	Instrument/Facility	Amount (Rs. Crores)	Rating Assigned
1.	Long Term Facility – Fund Based - Cash Credit	17.00	IVR BB+ / Stable Outlook (IVR Double B Plus with Stable Outlook)
2.	Long Term Facility – Non Fund Based – Bank Guarantee	27.50	IVR BB+ / Stable Outlook (IVR Double B Plus with Stable Outlook)
3.	(Proposed) Short Term Facility – Non Fund Based - Bank Guarantee	0.50	IVR A4+ (IVR A Four Plus)
	Total	45.00	

Details of Facilities are in Annexure I

Detailed Rationale

The aforesaid rating derives comfort from experienced board of directors, reputed clientele, healthy order book, healthy supplier network and low counterparty credit risk. However, the rating is constrained by geographical concentration, stretched liquidity, working capital intensive nature of operations and project execution risk. Growth in scale of operations, maintaining profitability, working capital management and sharp changes in leverage are the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Strengths

Experienced Board of Directors

SECPL is promoted by Mr. S. Seshadri & Mr. R. Sekar, both of whom have wealth of experience in the engineering and construction field. Mr. S. Seshadri came through the ranks by working as a site engineer for over 3 years post which he worked as a senior engineer at a leading construction company in Vizag – responsible for timely execution of projects, coordinating with sub-contractors and suppliers in finalising rates and monitoring the overall

progress of the projects in hand. Mr. R. Sekar has also had a long career in the construction & engineering and has overseen a variety of high profile cases.

Reputed clientele

SECPL has a list of reputed clients, whom they have serviced in the past. These include PepsiCo – wherein SECPL was instrumental in their plant construction in Tamil Nadu, BGR Systems – they are laying out pipe lines for TTRO (Tertiary Treatment Reverse Osmosis) water treatment plant in Chennai (of order value of Rs. 29 Cr.), Kalis Sparkling Water Pvt Ltd (they have a contract amounting to Rs. 10.84 Cr.), PepsiCo Holdings (SECPL was among the consortium of contracts assigned to build the manufacturing plant in Chennai), instrumental in building the WonderLa Water Resort in Bengaluru (a contract worth Rs. 0.50 Cr.).

Healthy Order Book

As on the 30th of April, 2019 SECPL has an order book amounting to Rs. 257.35 Cr. which is substantial when compared to its revenues in FY18 amounting to Rs. 47.73 Cr.

Healthy Supplier network

The company has a good supplier network. Its top five suppliers constitute around 28% of its total raw material purchases which indicates a moderately diversified supply network. Further, majority of its suppliers are located in its close vicinity within the bounds of Chennai; which helps the company to save on logistics and prevent any supply chain disruptions.

Low counterparty credit risk

Their current order book primarily consists of projects assigned by the Chennai Metropolitan Water Supplies and Sewerage Board and these projects are funded by the World Bank, being a world renowned agency which promotes worldwide development of civic facilities, being back by the United Nations and the Government of India. The World Bank has much credibility when it comes to fulfilling their payment obligations.

Key Rating Weaknesses

Geographical Concentration

The company pre-dominantly operates within the boundaries of the state of Chennai. They have their Class 1 contractor registration with the Chennai Metropolitan Water Supply and Sewerage Board, most of its clients also reside within the boundaries of Chennai.

Stretched liquidity

The company has a moderately stretched liquidity profile marked by gross cash accruals of Rs. 1.87 Cr in FY18 which is low when compared to the yearly debt payments that they have to make. The company has working capital limits of Rs. 17.00 Cr. which they have been utilising highly. (a monthly average of 97%).

Working capital intensive nature of operations

The average collection period was elongated at 122 days and average inventory of 218 days in FY19 (provisional). This implies working capital intensive operations where much of the company cash is locked up in inventory and with the customers. On an average, the company takes around 335 days to pay its suppliers.

Project execution risk

The value of a project is measured by the ability of the entity to complete any project in a timely manner and with all committed specifications. Any delays in project execution can have a negative impact on collections from customers and saleability of projects, which can lead to low funding ability which would lead to further constrains in the execution process.

Analytical Approach & Applicable Criteria

Standalone Approach

Rating Methodology for Infrastructure Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity

Liquidity is nearly stretched, marked by slightly higher accruals to repayment obligations, highly utilized bank limits and modest cash balance.

About the Company

Set up in 1989 as a proprietorship firm, a member of Sattva Business Group and reconstituted as a private limited company in 2005 - Sattva Engineering Construction Private Limited (SECPL) undertakes civil and industrial contracts. Its daily operations are managed by its promoters, Mr. S. Seshadri and Mr. R. Sekar. It is based in Chennai (Tamil Nadu). The engineering division specialises in the construction of Warehouse & Yard developments, Industrial Buildings, Commercial buildings, Water & Sewage treatment plants with collection & distribution systems, residential complexes, power stations & sub-stations. The company is a CLASS I contractor (as per Renewal of Works contract dated 11th April, 2019) in state level special buildings circle, Public Works Department, Chennai, Chennai Metropolitan Water Supply and Sewerage Board, Chennai.

Financials*

(Rs. crore)

For the year ended/ As On	31-03-2018	31-03-2019
	(Audited)	(Provisional)
Total Operating Income	48.21	50.47
EBITDA	7.01	7.57
PAT	1.43	1.63
Total Debt	27.11	25.84
Tangible Networth	14.82	16.45
<u>Ratios</u>		
EBITDA Margin (%)	14.55	15.00
PAT Margin (%)	2.96	3.23
Overall Gearing Ratio (x)	1.83	1.57

Note: Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Brickwork Ratings has moved the rating of Sattva Engineering Construction Private Limited into the Issuer Non-Cooperating category as the company did not co-operate in the rating procedure despite repeated follow ups as per the Press Release dated August 19, 2019.

Any other information: N.A

Rating History for last three years:

Sl. No.	Name of Instrument/Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Fund Based Limits – CC	Long Term	17.00	IVR BB+/ Stable Outlook	--	--	--
2.	Non Fund Based – Bank Guarantee	Long Term	27.50	IVR BB+/ Stable Outlook	--	--	--
3.	(Proposed) Non Fund Based Limits – Bank Guarantee	Short Term	0.50	IVR A4+	--	--	--

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company’s long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Fund Based Limits – Cash Credit	--	--	--	17.00	IVR BB+/Stable Outlook
Long Term Non Fund Based – Bank Guarantee	--	--	--	27.50	IVR BB+/Stable Outlook
(Proposed) Short Term Facility – Non Fund Based – Bank Guarantee	--	--	--	0.50	IVR A4+