



Press Release

Sattva Engineering Construction Pvt Ltd

June 18, 2021

Ratings

Sl. No.	Instrument/Facility	Amount (INR Crore)	Rating Assigned	Rating Action
1.	Long Term Bank Facility – Fund Based – Term Loan	3.48	IVR BB+/Stable Outlook (IVR Double B Plus with Stable Outlook)	Assigned
2.	Long Term Bank Facility – Fund Based – Cash Credit	17.00	IVR BB+/Stable Outlook (IVR Double B Plus with Stable Outlook)	Revised and removed from ISSUER NOT COOPERATING category
3.	Short Term Bank Facility – Non Fund Based – Bank Guarantee	32.52* (enhanced from INR27.50 crore)	IVR A4+ (IVR A Four Plus)	Revised and removed from ISSUER NOT COOPERATING category
	Total	53.00		

Details of Facilities are in Annexure 1

Detailed Rationale

The aforesaid rating revision to the bank facilities of the entity derives comfort from experienced board of directors, improved profitability on the back of increased order book additions and low counterparty credit risk. However, geographical concentration, working capital intensive nature of operations and project execution risk are the rating constraints.

Key Rating Sensitivities

Upward factors:

- Continued growth in scale of operations and maintaining profitability as projected
- Improvement in leverage and debt coverage indicators

Downward factors:

- Improved working capital management
- Sharp changes in leverage



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Key Rating Drivers with detailed description

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, co-ordinating 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.

Improved profitability on the back of increased order book additions

The operating income of the company has been increasing over the past three fiscals with INR50.11 crore in FY19 to INR67.01 crore in FY20 to INR85.78 crore in FY21 (P); the improvement has been on the back of improved order book additions and better than before project execution rates; although the scale of operations continue to remain moderate. The company has a strong order book with orders outstanding amounting to INR378.18 crore, which amounts to 4.41x of the operating income in FY21 (P). The company has orders largely from government and quasi-government entities apart from certain corporates.

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 which allows the company to take their pick off the projects on offer by the



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Chennai Metropolitan Water Supply and Sewerage Board without any cap, most of their clients also reside within the boundaries of Chennai.

Working capital intensive nature of operations

The operations of the company continue to remain working capital intensive largely due to the nature of the industry that the company operates in, the operating cycle is stretched at 196 days in FY20 and 166 days in FY21 (P); elongated by a stretched receivable period of 118 days in FY20 and 103 days in FY21 (P); despite the stretched receivable period the company has does not have any instances of bad debts.

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, which can lead to low funding ability which would lead to further constrains in the execution process. The project costs are dependent on a variety of variables such as the nature of the terrain, environmental clearances and other externalities. Civil construction companies also face challenges relating to shortage of labour, equipment and availability of key raw materials on time. Weather, labour problems and difficulty in terrain may lead to construction delays and cost escalations.

Analytical Approach: Standalone

Applicable Criteria

Rating Methodology for Infrastructure Sector Companies
Financial Ratios & Interpretation (Non-financial Sector)

Liquidity - Stretched

The liquidity is stretched despite the current ratio being above unity at 1.30x the company has high amount of inventories amounting to INR29.16 crore and debtors amounting to INR23.51 crore which has inflated the current ratio above unity; due to highly utilised working capital limits along with a low GCA of INR2.59 crore and cash and bank balances of INR2.23 crore



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(majority of which consists of margin money kept with banks for bank guarantees); as against short term debt obligations of INR7.23 crore (CPLTD + Interest payments).

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 3special buildings circle, Public Works Department, Chennai, Chennai Metropolitan Water Supply and Sewerage Board, Chennai.

Financials (Standalone)*:

(INR crore)

For the year ended/ As On	31-03-2019	31-03-2020	31-03-2021
	(Audited)	(Audited)	(Provisional)
Total Income	50.11	67.01	85.78
EBITDA	7.39	8.56	8.58
PAT	1.68	2.22	2.57
Total Debt	27.24	29.05	27.71
Tangible Net-worth	14.34	16.53	20.78
Ratios			
EBITDA Margin (%)	14.75	12.78	10.00
PAT Margin (%)	3.32	3.28	2.49
Overall Gearing Ratio (x)	1.87	1.33	1.04

* Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Brickwork Ratings has moved the rating of Sattva Engineering Construction Pvt Ltd into the Issuer Non-Cooperating category as the company did not co-operate in the rating procedure as per Press Release dated October 19th, 2020.

Any other information: None



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Rating History for last three years:

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2021-22)			Rating History for the past 3 years		
		Type	Amount outstanding (INR crore)	Rating	Date(s) & Rating(s) assigned in 2020-21 (PR dated Nov 10, 2020)	Date(s) & Rating(s) assigned in 2019-20 (PR dated Sept 18, 2019)	Date(s) & Rating(s) assigned in 2018-19
1.	Long Term Bank Facility – Fund Based – Term Loan	Long Term	3.48	IVR BB+/ Stable	--	--	--
2.	Long Term Bank Facility – Fund Based – Cash Credit	Long Term	17.00	IVR BB+/ Stable	IVR BB- ISSUER NOT COOPERATING	IVR BB+/ Stable	--
3.	Short Term Bank Facility – Non Fund Based – Bank Guarantee	Short Term	32.52*	IVR A4+	IVR A4 ISSUER NOT COOPERATING	IVR A4+	--

*including proposed facility of INR0.02 crore

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 (INR Crore)	Rating Assigned/ Outlook
Long Term Bank Facility – Fund Based – Term Loan	NA	NA	Up to 2025	3.48	IVR BB+/ Stable Outlook
Long Term Bank Facility – Fund Based – Cash Credit	NA	NA	Revolving	17.00	IVR BB+/ Stable Outlook
Short Term Bank Facility – Non Fund Based – Bank Guarantee	NA	NA	Less than 1 year	32.52	IVR A4+

Annexure 2: Facility wise lender details.

<https://www.infomerics.com/admin/prfiles/Lender-Sattva-Engg19-jun-21-.pdf>