



## Press Release

### Sattva Engineering Construction Private Limited (SECPL)

September 13, 2023

#### Ratings:

Sl. No.	Type of Facility	Rated Amount (Rs Cr.)	Ratings	Rating Action	<a href="#">Complexity Indicator</a>
1	Long Term Bank Facilities	26.59 (Enhanced from Rs. 20.48 crore)	IVR D	Revised and removed from Issuer not cooperating category	Simple
2	Short Term Bank Facilities	44.50 (Enhanced from Rs. 32.52 crore)	IVR D	Revised and removed from Issuer not cooperating category	Simple
Total		71.09 (Rupees Seventy One Crore and Nine Lakhs Only)			

#### Details of Facilities are in Annexure 1

#### Detailed Rationale:

Infomerics had migrated the Rating assigned to the bank facilities of Sattva Engineering Construction Private Limited (SECPL) to the 'ISSUER NOT COOPERATING' category vide Press Release dated September 14, 2022 because of non-receipt of information for monitoring the Rating. Subsequently, the company has provided the requisite information. Based on this, Infomerics has removed the Rating from the 'ISSUER NOT COOPERATING' category.

The revision in ratings takes into account the intermittent delays in servicing of debt obligation. Further, Infomerics also takes the note of experienced promoters, satisfactory order book position, growth in scale of operations, satisfactory profitability margin and capital structure, low counterparty credit risk, weak debt coverage indicators, profitability margins are



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susceptible to fluctuation in raw material prices, Geographical Concentration and project execution risk.

### **Key Rating Sensitivities:**

#### **Upward Factors:**

- Continues timely serving the debt obligations for at least 90 days.

### **Key Rating Drivers with detailed description**

#### **Key Rating Strengths:**

##### **Experienced promoters**

SECPL is promoted by Mr. S. Seshadri & Mr. R. Sekar, both of whom have a 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 construction & engineering and has overseen a variety of high-profile cases.

##### **Satisfactory order book position**

The order book position of the company stood at Rs. 194.45 crore as of July 2023 (translates 2.15x of FY23's revenue) as against Rs. 378.18 crore (translates 4.41x of FY21's revenue) and the project is expected to be executed within April 2026. The order book of the company is geographically concentrated in Tamil Nadu. The concentrated orders from Tamil Nadu which exposes the company to changes in state government's policy of infrastructure and political conditions in that region.

##### **Growth in scale of operations**

The company reported with stable increase in total income ranging from Rs. 50 crore to Rs. 90 crore over the past five years ended FY23. The company has majorly executed the orders of sewage and water treatment plant for the past years, and this



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has resulted in an increase of total income to Rs. 88.45 crore in FY22 from Rs. 86.01 crore and further increased to Rs. 90.36 crore in FY23 (Prov.).

### **Satisfactory profitability margin and capital structure**

The company's EBIDTA margin dropped in FY22 to 7.47% however remained satisfactory due to increase in cost of raw materials along with covid disruptions and further improved to 8.79% in FY23 (Prov.). The company has been sanctioned with a guaranteed emergency term loan of Rs. 1.25 crore in FY22 to meet its working capital requirement. The capital structure improved and stood satisfactory marked by overall gearing to 1.79x as of March 31, 2023 (Prov.) from 1.81x as of March 31, 2022.

### **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 Amrut, being a world-renowned agency, which promotes worldwide development of civic facilities, being back by the United Nations and the Government of India. The Amrut has much credibility when it comes to fulfilling their payment obligations.

### **Key Rating Weaknesses:**

#### **Weak debt coverage indicators**

The debt coverage indicators improved albeit remained weak marked by Total debt/GCA to 15.64x as of March 31, 2023 (Prov.) from 24.62x as of March 31, 2022 due to increase in cash accruals in line with increase in operating profit. The interest coverage also improved to 1.55x in FY23 from 1.29x in FY22. The total outside liabilities/TNW also improved to 2.89x as of March 31, 2023 from 3.20x as of March 31, 2022.

#### **Profitability margins are susceptible to fluctuation in raw material prices**

The raw material is the major cost driver and the prices of the same are volatile in nature therefore the cost base remains exposed to any adverse price fluctuations in the prices of cement, bricks, sand, bitumen, steel, being major cost components amongst all materials. The company bids most of the projects with price escalation



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clause. Absence of price escalation clause in some of the orders leads to the profit margins of the company are susceptible to fluctuation in raw material prices.

### **Geographical Concentration risk**

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

### **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 in compliance of all committed specifications. Any delays in project execution can have a negative impact on collections from customers and salability of projects, which can lead to constrained liquidity. The project costs are dependent on a variety of variables such as the nature of the terrain, environmental clearances, and other externalities. Infrastructure 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 Companies](#)  
[Financial Ratios & Interpretation \(Non-Financial Sector\)](#)  
[Criteria on Default Recognition](#)  
[Criteria for rating outlook](#)  
[Policy on Issuer not cooperating](#)

### **Liquidity-Poor**

Liquidity is poor marked by tightly matched accruals to repay its long-term debt obligations and cash and bank balance of Rs. 3.62 crore as of March 31, 2023 (Prov.). The operating cycle of the company remained elongated at 161 days in FY23 due to stretched collection period to 153 days from 117 days in FY22. The company bids orders from government sector,



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thereby the collection period stood elongated, and it includes retention money of which 50% will be realized post final bill and remaining after defect liability period. The company availed credit period upto 70-90 days from its suppliers. The company has been sanctioned with overdraft of Rs. 22 crore and the average utilisation stood at 96.41% for last twelve months ended July 2023.

### About the Company:

SECPL was 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 in state level special buildings circle, Public Works Department, Chennai, Chennai Metropolitan Water Supply and Sewerage Board, Chennai

### Financials: Standalone

For the year ended / INR. Crore*	31-03-2022	31-03-2023
	<b>Audited</b>	<b>Provisional</b>
Total Operating Income	88.07	90.16
EBITDA	6.58	7.93
PAT	0.93	1.83
Total Debt	34.67	36.00
Tangible networkth	18.32	20.15
<b>Ratios</b>		
EBIDTA Margin (%)	7.47	8.79
PAT Margin (%)	1.06	2.03
Overall Gearing Ratio (x)	1.81	1.79

*\*Classification as per Infomerics' standards*

**Status of non-cooperation with previous CRA:** Brickwork rating continued to place the ratings of Sattva Engineering Construction Private Limited under 'issuer not cooperating' category vide PR dated January 23, 2023 due to the issuer/borrower failed to submit such information before the due date.

**Any other information:** Not Applicable



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### Rating History for last three years:

Sr. No.	Name of Instrument /Facilities	Current Ratings (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (INR Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23 (PR dated September 14, 2022)	Date(s) & Rating(s) assigned in 2021-22 (PR dated June 18, 2021)	Date(s) & Rating(s) assigned in 2020-21 (PR dated Nov 10, 2020)
1.	Fund Based - Term Loans	Long Term	4.59	IVR D	IVR BB ISSUER NOT COOPERATING	IVR BB+/ Stable	--
2.	Fund Based – Cash Credit	Long Term	22.00	IVR D	IVR BB ISSUER NOT COOPERATING	IVR BB+/ Stable	IVR BB- ISSUER NOT COOPERATING
3.	Non-Fund Based-Bank Guarantees	Short Term	44.50	IVR D	IVR A4 ISSUER NOT COOPERATING	IVR A4+	IVR A4 ISSUER NOT COOPERATING

### Name and Contact Details of the Rating Analyst:

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### About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).





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Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

For more information visit [www.infomerics.com](http://www.infomerics.com).

**Disclaimer:** Infomerics ratings are based on information provided by the issuer on an 'as is where is' basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change or withdraw the credit ratings at any point in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information, which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.



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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- Fund Based- Term Loan	-	-	September 2025	4.59	IVR D
Long Term- Fund Based- Cash Credit	-	-	Not Applicable	22.00	IVR D
Short Term- Non-Fund Based- Bank Guarantee	-	-	Not Applicable	44.50	IVR D

**Annexure 2: List of companies considered for consolidated analysis:** Not Applicable

**Annexure 3: Facility wise lender details:**

<https://www.infomerics.com/admin/prfiles/len-Sattva-sep23.pdf>

**Annexure 4: Detailed explanation of covenants of the rated instrument/facilities:** Not Applicable

**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](http://www.infomerics.com)