



Press Release

Sree Saravana Engineering Bhavani Private Limited

July 08, 2020

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Ratings Assigned
1.	Bank Facilities- Long Term	5.00	IVR BB+/Stable (IVR Double B Plus with Stable Outlook)
2.	Bank Facilities- Short Term	35.00	IVR A4+ (IVR A Four Plus)
	Total	40.00 (Forty Crore Only)	

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Sree Saravana Engineering Bhavani Private Limited (SSEB) derives comfort from its experienced promoters, long track record of operations coupled with sound engineering acumen and proven project execution capability, backward integration initiatives and its reputed clientele. The ratings also positively factors in its strong order book position reflecting satisfactory medium-term revenue visibility, healthy profitability and comfortable capital structure with healthy debt protection metrics. These rating strengths however gets tempered by fluctuating total operating income, susceptibility of operating margin to volatile input prices, highly fragmented & competitive nature of the construction sector with significant price war and working capital intensive nature of operation marked by elongated collection period.

Key Rating Sensitivities

Upward Rating Factors

- Growth in scale of operations with improvement in profitability and debt protection metrics on a sustained basis with improvement in its capital structure
- Management of working capital requirements efficiently with improved in liquidity position

Downward Rating Factors

- Moderation in scale of operations and/or profitability impacting the debt protection metrics on a sustained basis
- Moderation in the capital structure



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Detailed Description of Key Rating Drivers

Key Rating Strengths:

Experienced promoters

The promoter, Mr. P. Venkatachalam (Managing Director) is B.A (Doctor in Social Works) by qualification has around four decades of experience in the construction sector. Mr. P. Venkatachalam looks after overall operations for the company and is well supported by a team of experienced and qualified professionals.

Long track record of operations with sound engineering acumen with proven project execution capability

Being in operation since 1981, the company has a vast track record of almost four decades. Over the years, the company has acquired strong engineering acumen through its successful operations and completing a large number of small, medium and large-sized projects of Hydro-Power Plants, supply and erection of Dam Gates & Penstocks, Storm water drainage systems, etc. across the states of Tamil Nadu, Kerala and Karnataka ensuring timely completion of all its projects. The repeat orders received from its clientele validate its construction capabilities.

Backward integration initiatives

SSEB has its own manufacturing unit covering an area of 6 acres of land in Tamil Nadu with a manufacturing capacity of more than 5000 MT undertaking Engineering, Design, Procurement, Fabrication & Erection, Testing & Commissioning of Hydro Mechanical equipment like Penstock, Barrage Gates, Power House Intake Gates, Draft tube Gate, Power Channel Stop Log gates, Roof Trusses, EOT Crane Girders, Structures, etc. Having its own facility boosts the profitability of the company as it reduces the dependence on other local players.

Reputed clientele

SSEB bids for tenders floated by various government departments/entities and caters to private players as well. The Company has delivered projects for reputed names including but not limited to Tamil Nadu Electricity Board (TANGEDCO), Public Works Department (PWD), Storm Water Drainage Department, Karnataka Power Corporation Ltd. (KPCL), Kerala State Electricity Board (KSEB), etc. Over the years of its operations, the company has established a strong business relationship with various government departments as well as private clients.



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Strong order book position reflecting satisfactory medium-term revenue visibility

The company has a strong unexecuted order book of Rs.643.49 crore as on June 10, 2020 which is about 6.17x of its FY19 (audited) construction revenue. The orders are expected to be completed within next two-three years, indicating a satisfactory near to medium term revenue visibility.

Healthy profitability

Over the past three years, the company has maintained a healthy profitability marked by satisfactory EBITDA margin, healthy PAT margin and comfortable gross cash accruals. In FY19, SSEB witnessed a healthy improvement in its EBIDTA margin from 7.00% in FY18 to 9.69% in FY19. The improvement was mainly on account of consistent cost control and efficiency measures stipulated by the Company. Driven by improvement in EBITDA margin the PAT margin also improved from 6.26% in FY18 to 6.66% in FY19. Further, in FY20 (provisional numbers), SSEB reported a PAT of Rs.2.20 crore on a total operating income of Rs.41.27 crore (decline in total operating income can be attributable to heavy rainfalls leading to floods due to which company couldn't work for 6-7 months) whereas the EBIDTA margin and the PAT margin stood at 11.17% and 5.31% respectively.

Comfortable capital structure with healthy debt protection metrics

The overall gearing of the company stood comfortable at 0.12x as on March 31, 2019. The debt protection indicators of the company like interest coverage have remained above 8.50x for the past two financial years (FY19-FY18) and stood comfortably at 13.64x in FY19, improvement was on account of repayment of long term debt; reducing the interest cost for the company coupled with increased EBITDA margins. Total Debt/GCA remained below 1 year for the past three financial years (FY19-FY17) and stood at 0.43 years in FY19. Further, total indebtedness of the company as reflected by TOL/ATNW remained comfortable at 2.45x as on March 31, 2019.

Key Rating Weaknesses

Fluctuating total operating income

SSEB witnessed fluctuation in its scale of operation as the total operating income increased from Rs.75.84 crore in FY17 to Rs.125.36 crore in FY18 and then deteriorating to Rs.104.22 crore in FY19. The fluctuation was on account of workable orders in hand during FY18 and FY19. However, on successful completion of high value large contracts the company gained



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big ticket contracts during FY20 and achieved a healthy order book position. Infomerics expects steady growth in SSEB's business in FY21. Further, during FY20 (provisional numbers) the company reported a total operating income of Rs.41.27 crore only. The reason for such decline being heavy rainfalls in Kerala and Tamil Nadu which are the major working areas for the company, pushing the company to a stand still for 6-7 months during the financial year.

Susceptibility of operating margin to volatile input prices

Major raw materials used in civil construction activities are steel & cement which are usually sourced from large players/dealers at proximate distances. The raw material & labor cost forms the majority chunk of the total cost of sales for the last three years. As the raw material prices & labor cost are volatile in nature, the profitability of the company is subject to fluctuation in raw material prices & labor cost. In addition, un-availability of price escalation clause (for raw materials) in almost all of the contracts exposes the profit margins to a great extent.

Highly fragmented & competitive nature of the construction sector with significant price war

The domestic infrastructure/construction sector is highly crowded with presence of many players with varied statures & capabilities. Boom in the infrastructure sector, a few years back, resulted in increase in the number of players. While the competition is perceived to be healthy, significant price cut by few players during the bidding process is a matter of serious concern for the users with respect to quality of output.

Working capital intensive nature of operation marked by elongated collection period

Construction business, by its nature, is working capital intensive as large part of working capital remains blocked as earnest money deposits and retention money. Further, the company's revenue is skewed towards the last two quarters with higher proportion in the last quarter of the fiscal. Consequently, the year-end receivables generally remains high. The collection period remained high and deteriorated to 109 days in FY19 (as against 37 days in FY18) mainly due to higher execution of work in Q4FY19. The working capital requirement of the company is mainly funded through credit period availed from its creditors based on its established relationship, need based mobilization advances availed and through bank borrowings. Further, the company has a strategy to take up short to medium duration contracts and optimize the execution time to realize the payments faster in order to manage working



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capital requirements efficiently. Average utilization of CC-limit extended to SSEB stood around ~4% for the trailing 12 months ended May, 2020.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Infrastructure Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity: Adequate

Adequate liquidity characterized by sufficient cushion in accruals vis-à-vis repayment obligations and moderate cash and bank balance of Rs.9.14 crore as on March 31, 2020. Its capex requirements are modular and expected to be funded internal accruals. Its bank limits are utilized to the extent of 4.17% during the past 12 months ended May, 2020. The liquidity position of the company is supported by its above unity current ratio.

About the Company

Sree Saravana Engineering Bhavani Pvt. Ltd. (SSEB) is based out of Erode, Tamil Nadu and was established in 1981 as a partnership firm (Sri Saravana Engineering Works) by Mr. P. Venkatachalam and his wife Mrs. V. Poongodi and was later converted into a private limited company in December 2010. The company is engaged in the business of EPC contracting working predominantly in Kerala, Karnataka and Tamil Nadu. Currently, the company provides expertise in construction field such as earth fill, rock fill and concrete Dams and Tunnels, and Engineering Procurement Construction (EPC) which includes Civil, Mechanical and Electrical works, Design, Manufacture, Supply, Erection, Testing and Commissioning of Hydro Mechanical & Electro Mechanical equipment such as Turbine, Generator, Governor, Excitation System, LCU Panel, Indoor Electrical Control Panels, Outdoor Substation and connected Electrical & Mechanical Works for Hydro Power Projects from 1 MW to 250 MW, etc. The processes and procedures carried out comply with the requirements of ISO 9001:2017. Also, the operations of the company are currently being looked after by Mr. P. Venkatachalam and Mrs. V. Poongodi

Financials: Standalone

(Rs. Crore)



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For the year ended* / As On	31-03-2018 (Audited)	31-03-2019 (Audited)
Total Operating Income	125.36	104.22
EBITDA	8.78	10.10
PAT	8.40	7.01
Total Debt*	5.55	3.29
Tangible Net worth*	21.23	28.24
EBITDA Margin (%)	7.00	9.69
PAT Margin (%)	6.62	6.66
Overall Gearing Ratio (x)*	0.26	0.12

*as per Infomerics standards

Status of non-cooperation with previous CRA: N.A.

Any other information: N.A.

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Cash Credit	Long Term	5.00	IVR BB+ /Stable	-	-	-
2.	Bank Guarantee	Short Term	35.00	IVR A4+	-	-	-

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it based on 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. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually



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widening its product portfolio. 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 Bank Facilities– Cash Credit	NA	NA	NA	5.00	IVR BB+/ Stable Outlook
Short Term Bank Facilities– Bank Guarantee	NA	NA	NA	35.00	IVR A4+