

Press Release

Shree Balaji Engicons Limited

June 16, 2020



Rating Assigned

| | |
|-------------------------------------|-------------------------------|
| Total Bank Facilities Rated* | Rs. 300.00 Cr. |
| Long Term Rating | ACUITE A/Stable (Assigned) |
| Short Term Rating | ACUITE A1 (Assigned) |

* Refer Annexure for details

Rating Rationale

Acuité has assigned a long term rating of '**ACUITE A**' (**read as ACUITE A**) and short term rating of '**ACUITE A1**' (**read as ACUITE A one**) to the above mentioned bank facilities of Shree Balaji Engicons Limited (SBEL). The outlook is '**Stable**'.

Incorporated in 1998, Shree Balaji Engicons Limited (SBEL) is an Odisha based company engaged in civil construction work for roads, highways, bridges, building and railway infrastructure projects for government entities in Odisha, Jharkhand and Chattisgarh. The company is a Super Class civil contractor with Public Works Department (PWD), Odisha. The company also operates a petrol pump. The company is promoted by Mr. Anil Kumar Agarwal and his family. The promoters had started their construction activities as a proprietorship firm in 1985 and the constitution was changed in 1998 to a closely held company under its current name.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of SBEL to arrive at this rating.

Key Rating Drivers

Strengths

- **Long track record and experienced management**

The key promoters, Mr. Anil Kumar Agrawal, Mr. Pradip Kumar Agrawal and Mr Sushil Kumar Agrawal have been in the civil construction industry for over three decades. The long standing experience of the promoters has been through their erstwhile proprietorship firm established in 1985. Presently, the second generation, Mr Vinay Agrawal (BE Civil), Mr Ankit Agrawal and Mr. Rishab Agarwal have also entered the business and are actively involved in the day to day operations of the company. Acuité believes its long established market presence and vast experience of the promoters in the civil construction industry will help to secure fresh orders going forward.

- **Healthy and well diversified order book position**

The company has outstanding large orders in hand of Rs. 1225.68 crore to be executed in the next two to three years. All its projects are on direct tendering basis, except for few projects which are under joint venture with civil contractors. The orders are from Government companies like Indian Oil Corporation, Mahanadi Coalfields and South East Central Railway to name a few. Thus, Acuité believes that the company's healthy order book position as on March 31, 2020 provides strong revenue visibility over the medium term.

Moreover, the company has orders which are well diversified in building, road, bridge, railways and integrated infrastructure. Road & Highways comprises around 42 percent of its total order book, bridge comprises around 19 percent of its total order book and railways comprise around 18.3 percent of its total order book. This shows healthy segmental diversification with different work being done for building, road, bridge, railways and integrated infrastructure. The rating draws comfort from their presence across various segments, thus mitigating any concentration risk.

However, the company's revenues decreased to Rs. 374.33 crores in FY20 (Provisional) from Rs. 393.54 crore in FY2019, marking a minor de-growth of 4.88 per cent yoy. The decline in revenues is on account of decreased order-book execution. However, the company started its operations since 20th April, 2020 and has already achieved revenues of Rs. 40 crore in April and May, 2020 (Provisional). Acuité believes since the company's main area of operation being the state of Odisha, COVID-19 impact on the company's functioning is likely to be minimal.

• **Comfortable financial risk profile**

The financial risk profile of the company is comfortable marked by high net worth, low gearing and strong debt protection metrics. The tangible net worth of the company stood at Rs. 174.03 crores as on 31st March, 2020 (Provisional) as against 151.91 crores as on 31st March, 2019. The increase in net worth is mainly due to accretion of profit to reserves. The gearing (debt-equity) stood low at 0.58 times in FY2020 (Provisional) as against 0.51 times in FY2019. The total debt of Rs. 101.36 crores as on March 31st, 2020 (Provisional) consists of long term loans of Rs. 39.02 crores, short term borrowings of Rs. 52.12 crores and unsecured loan from promoters of Rs. 10.22 crores. Moreover, the interest coverage ratio (ICR) and debt service coverage ratio (DSCR) stood strong at 5.41 times and 2.28 times in FY2020 (Provisional) as compared to 5.61 times and 1.73 times in FY2019 respectively. The NCA/TD stood at 0.37 times in FY2020 (Provisional). Acuité believes that the financial risk profile of the company is expected to remain comfortable on account of healthy cash generation and no major debt funded capex plans in the medium term.

Weaknesses

• **Working capital intensive nature of operations**

The operations of the company are working capital intensive as marked by high gross current asset (GCA) days of 246 days in FY20 (Provisional) as against 192 days in FY2019. The high GCA days is on account of high other current assets that majorly includes retention money, earnest money deposit and pending GST claim. The inventory days stood at 87 days in FY20 (Provisional) as compared to 84 days in FY2019. The contracts are long term in nature, which results in high work in progress inventory. However, the debtor days improved to 53 days in FY20 (Provisional) as compared to 59 days in FY2019. Moreover, the working capital limit has been utilised 87 per cent in the last eleven months ended April, 2020. Acuité believes that the ability of the company to manage its working capital operations efficiently will remain a key rating sensitivity.

• **Moderate geographic diversity**

The company has moderate geographical diversity with projects being executed only in Chhattisgarh, Odisha and Jharkhand. The projects floated in Odisha forms a major chunk of the company's revenues. Around 65 per cent of total orders are from Odisha, 15 per cent of total orders are from Jharkhand and remaining from Chhattisgarh. Going forward, the ability of the company to diversify its revenue streams further from various geographies over the long term would remain a key sensitivity.

Rating Sensitivity

- Growth in scale of operations while maintaining operating profitability
- Timely execution of orders
- Sustenance of existing financial risk profile with healthy capital structure

Material Covenants

None

Liquidity:

The company's liquidity is strong marked by healthy net cash accruals of Rs. 37.64 crores against debt obligations of Rs.10.94 crores in FY20 (Provisional). The current ratio stood at 2.31 times as on March 31, 2020. The company maintains unencumbered cash and bank balances of Rs.6.85 crores as on March 31, 2020 and working capital limits has been 87 per cent utilized in the last eleven months ended April, 2020. The company has availed moratorium on term loan for April and May, 2020 from HDFC bank. The company has also been sanctioned Rs. 15 crores of cash credit facility and Rs. 34 crores of bank guarantee out of the proposed enhancement of Rs. 30 crores of cash credit facility and Rs. 50 crores of bank guarantee. The availment of moratorium and enhancement in bank facilities would ease the liquidity position of the company further. However, the company's operations are working capital intensive marked by high gross current asset (GCA) of 246 days in FY20 (Provisional) as against 192 days in FY2019. Acuité believes that the liquidity of the company is likely to remain strong over the medium term in the absence of any significant debt funded capex and consistent accruals.

Outlook: Stable

Acuité believes the company's outlook will remain stable over the medium term on account of vast experience of the promoters, long execution track record, healthy order book position and strong financial risk profile. The outlook may be revised to 'Positive' in case the company registers healthy growth in revenues while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in the company's revenues or profit margins, or in case of deterioration in the company's financial risk profile and liquidity position or delay in completion of its projects or further deterioration in its working capital cycle.

About the Rated Entity - Key Financials

| | Unit | FY20 (Provisional) | FY19 (Actual) |
|-------------------------------|---------|--------------------|---------------|
| Operating Income | Rs. Cr. | 374.33 | 393.54 |
| PAT | Rs. Cr. | 22.12 | 22.58 |
| PAT Margin | (%) | 5.91 | 5.74 |
| Total Debt/Tangible Net Worth | Times | 0.58 | 0.51 |
| PBDIT/Interest | Times | 5.41 | 5.61 |

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-51.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Up to last three years)

| Date | Name of Instrument / Facilities | Term | Amount (Rs. Cr.) | Ratings/Outlook |
|-------------|---------------------------------|------------|------------------|--|
| 05-Feb-2020 | Cash Credit | Long Term | 45.75 | ACUITE BB+ (Withdrawn) |
| | Standby Line of Credit | Short Term | 2.00 | ACUITE A4+ (Withdrawn) |
| | Bank Guarantee | Short Term | 125.00 | ACUITE A4+ (Withdrawn) |
| | Proposed Cash Credit | Long Term | 15.00 | ACUITE BB+ (Withdrawn) |
| | Proposed Bank Guarantee | Short Term | 62.25 | ACUITE A4+ (Withdrawn) |
| 17-Dec-2019 | Cash Credit | Long Term | 45.75 | ACUITE BB+ (Downgraded from ACUITE BBB+) |
| | Standby Line of Credit | Short Term | 2.00 | ACUITE A4+ (Downgraded from ACUITE A2) |
| | Bank Guarantee | Short Term | 125.00 | ACUITE A4+ (Downgraded from ACUITE A2) |
| | Proposed Cash Credit | Long Term | 15.00 | ACUITE BB+ (Downgraded from ACUITE BBB+) |
| | Proposed Bank Guarantee | Short Term | 62.25 | ACUITE A4+ (Downgraded from ACUITE A2) |
| 27-Jun-2019 | Cash Credit | Long Term | 45.75 | ACUITE BBB+ (Indicative) |
| | Standby Line of Credit | Short Term | 2.00 | ACUITE A2 (Indicative) |
| | Bank Guarantee | Short Term | 125.00 | ACUITE A2 (Indicative) |
| | Proposed Cash Credit | Long Term | 15.00 | ACUITE BBB+ (Indicative) |

| | | | | |
|--|-------------------------|------------|-------|------------------------|
| | Proposed Bank Guarantee | Short Term | 62.25 | ACUITE A2 (Indicative) |
|--|-------------------------|------------|-------|------------------------|

***Annexure – Details of instruments rated**

| Name of the Facilities | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. Cr.) | Ratings/Outlook |
|-------------------------|------------------|----------------|----------------|-----------------------------|----------------------------|
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 57.00 | ACUITE A/Stable (Assigned) |
| Bank Guarantee | Not Applicable | Not Applicable | Not Applicable | 192.00 | ACUITE A1 (Assigned) |
| Proposed Cash Credit | Not Applicable | Not Applicable | Not Applicable | 20.00 | ACUITE A/Stable (Assigned) |
| Proposed Bank Guarantee | Not Applicable | Not Applicable | Not Applicable | 31.00 | ACUITE A1 (Assigned) |

Contacts

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About Acuité Ratings & Research:

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