

Press Release

Sarayu Engineering

June 02, 2018



Rating Assigned

| | |
|-------------------------------------|----------------------------|
| Total Bank Facilities Rated* | Rs. 9.00 Cr. |
| Long Term Rating | ACUITE B / Outlook: Stable |
| Short Term Rating | ACUITE A4 |

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE B** (**read as ACUITE B**) and short term rating of '**ACUITE A4**' (**read as ACUITE A four**) on the Rs.7.50 crore bank facilities of Sarayu Engineering. The outlook is '**Stable**'.

Established in 1989 by Mr. K.R Thangaraj, Sarayu Engineering is a Dindigul (Tamil Nadu) based proprietorship firm engaged in manufacture of distribution transformers. The entity mainly supplies transformers to Tamil Nadu Generation and Distribution Corporation Limited (TANGEDCO). The entity's proprietorship has been transferred to Mrs. Rajanandhini from her father, Mr. K.R. Thangaraj in 2018.

About the Group

Sarayu Engineering has a sister concern, namely, Associated Transformer Private Limited established in 1994, which is also engaged in manufacturing of distribution transformers. The group majorly deals with Tamil Nadu Generation and Distribution Corporation Limited (TANGEDCO). The group is promoted by Mr. K.R. Thangaraj.

Analytical Approach

Acuité has considered the consolidated business and financial risk profiles of Associated Transformer Private Limited (ATPL) and Sarayu Engineering, hereinafter, referred to as 'The group'. The consolidation is mainly on account of similarities in the line of business, strong operational, financial synergies and common management.

Key Rating Drivers

Strengths

- **Government scheme and regulation to prop up demand:**

Under Integrated Power Development Scheme (IPDS) and Deen Dayal Upadhyaya Gram Jyoti Yojana (DDUGJY) schemes, government spending on T&D infrastructure would result in expected spending on procurement of distribution transformer of around Rs.6000 crore in next four years. With Tamil Nadu joining UDAY scheme, the state government would take over 75 percent debts of Rs.30,420 crore of TANGEDCO and the balance debt will be taken by way of issuing Discom Bonds. This would save TANGEDCO of Rs.950 crore in annual interest cost due to debt reduction and reduced interest cost of issuance of government backed debt. This would improve the financial health of TANGEDCO. Further, Ministry of Power (MoP) has introduced standardizing norms under BIS-1180/2014 to bring back quality manufacturing in the sector. This is expected to bring down the number of players in the industry from current size of 1000 to half. Since ATPL and Sarayu Engineering are BIS certified manufacturer, with central government stipulation on the quality of transformer purchased through the above mentioned schemes would directly benefit ATPL in medium term.

- **Healthy order position:**

After muted orders from TAGEDCO for last 2 year, the group has healthy order book position of

35.99 crore as on 08 May, 2018 and also the group has quoted order delivery of Rs.2.00 crore for the month of May. Acuité believes that consolidation of players in the industry and healthy order book provides revenue visibility for the medium term.

Weaknesses

- **Working capital intensive operations:**

The operations are working capital intensive as reflected in high Gross Current Assets (GCA) of 222 days as on March 31, 2018 (Provisional) compared to 195 days as on March 31, 2017 due to high debtor levels. Receivable days in FY2018 stood at 112 compared to 149 in FY2017. Inventory days soared in FY2018 at 107 as against 17 in FY2017. High GCA weighs down the profitability in terms of interest cost. Acuité believes that the operations will continue to be working capital intensive over the medium term.

- **Below-average financial risk profile:**

The financial risk profile of the group is marked by below-average margin, moderate liquidity level and moderate debt protection metrics. EBITDA margin improved to 3.39 percent as on March 31, 2018 (Provisional) as compared to 1.34 percent as on March 31, 2017. PAT margin improved to 0.49 percent as on March 31, 2018 (Provisional) as compared to -0.50 percent as on March 31, 2017. Current ratio improved to 1.28 times as on March 31, 2018 (Provisional) compared to 1.07 times as on March 31, 2017. Coverage indicators such as Interest Coverage Ratio (ICR) improved to 1.47 times as on March 31, 2018 (Provisional) as compared to 1.43 times as on March 31, 2017. Net Cash Accruals to Total Debt (NCA/TD) stood at 0.04 times as on March 31, 2018 (Provisional).

- **Customer concentration risk and tender nature of business:**

The group derives over 80 percent of its revenue on selling distribution transformers to TANGEDCO. This places the group at a significant customer concentration risk. This leaves the group vulnerable to pricing power and completely exposed to capex cycle of TANGEDCO. The group deals mainly with TANGEDCO which provides order on tender basis. Going forward, the firm's ability to bid for large orders and qualify for the same remains to be seen.

Outlook: Stable

Acuité believes that the outlook on the group will remain 'Stable' over the medium term on account of the experience of the management. The outlook may be revised to 'Positive' if the financial risk profile of the group improves substantially while improving its revenues and profitability. Conversely, the outlook may be revised to 'Negative' in case of further deterioration in its working capital management leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

| | Unit | FY18 (Provisional) | FY17 (Actual) | FY16 (Actual) |
|-------------------------------|---------|--------------------|---------------|---------------|
| Operating Income | Rs. Cr. | 12.48 | 12.61 | 29.88 |
| EBITDA | Rs. Cr. | 0.35 | 0.14 | 0.55 |
| PAT | Rs. Cr. | 0.05 | -0.05 | 0.35 |
| EBITDA Margin | (%) | 2.80 | 1.11 | 1.85 |
| PAT Margin | (%) | 0.41 | -0.41 | 1.17 |
| ROCE | (%) | 4.82 | 3.45 | 24.58 |
| Total Debt/Tangible Net Worth | Times | 0.65 | 0.86 | 0.74 |
| PBDIT/Interest | Times | 1.47 | 1.43 | 2.72 |
| Total Debt/PBDIT | Times | 7.74 | 9.43 | 3.17 |
| Gross Current Assets (Days) | Days | 222 | 162 | 162 |

Status of non-cooperation with previous CRA (if applicable): None

Any other information: None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.ACUITE.in/criteria-manufacturing.htm>
- Consolidation Of Companies - <https://www.ACUITE.in/criteria-consolidation.htm>
- Financial Ratios And Adjustments - <https://www.ACUITE.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Not Applicable

***Annexure – Details of instruments rated**

| Name of the Facilities | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. Crore) | Ratings/Outlook |
|------------------------------------|------------------|----------------|----------------|-------------------------------|-------------------|
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 1.00 | ACUITE B / Stable |
| Proposed Bills Discounting | Not Applicable | Not Applicable | Not Applicable | 6.00 | ACUITE A4 |
| Bank guarantee/Letter of Guarantee | Not Applicable | Not Applicable | Not Applicable | 2.00 | ACUITE A4 |

Contacts

| Analytical | Rating Desk |
|---|---|
| Suman Chowdhury President - Rating Operations Tel: 022-67141107 suman.chowdhury@acuite.in | Varsha Bist Manager - Rating Desk Tel: 022-67141160 varsha.bist@acuite.in |
| Praveen Kumar Analyst - Rating Operations Tel: 022-67141148 praveen.kumar@acuite.in | |

About Acuité Ratings & Research:

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