

Press Release

Sarayu Engineering

July 19, 2019

Rating Upgraded and Reaffirmed



Total Bank Facilities Rated*	Rs.9.00 Cr.
Long Term Rating	ACUITE B+/Stable (Upgraded from Acuite B /Stable)
Short Term Rating	ACUITE A4 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has upgraded long term rating of '**ACUITE B+**' (read as **ACUITE B plus**) from '**ACUITE B**' (read as **ACUITE B**) and reaffirmed short term rating of '**ACUITE A4**' (read as **ACUITE A four**) to the Rs. 9.00 Crore bank facilities of SARAYU ENGINEERING. The outlook is '**Stable**'.

The upgrade of the rating factors in improving business risk profile marked by better-than-expected improvement in its revenues. However, the rating is partly constrained by below-average financial risk profile and working capital intensive operations.

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.

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

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

Key Rating Drivers

Strengths

- **Experienced management and long track record of operations and comfortable order book**

The group has very long track record of operations of nearly three decades and is involved in manufacture of transformers. The promoter is a veteran in the industry with long-standing experience. After muted orders from TANGEDCO in the period of FY17-FY18, the group has seen comfortable order book position of Rs.35.99 crore in FY2019. Further, the group has an order book of Rs. 34.11 crore, out of which Rs.8.95 crore is executed in Q1FY2020. With the emphasis on improvement of the electricity infra, the business risk profile of the group is expected to improve further over the medium term. Acuite believes that the promoter's experience, vintage of operations, reputed clientele such as TANGEDCO are expected to support in improvement of its business risk profile over the medium term.

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

Under Integrated Power Development Scheme (IPDS) and Deen Dayal Upadhyay Grameen 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, state government would take over 75% of debts of Rs.30420 crore of TANGEDCO and remaining debt would be issued as state guaranteed 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 financial health of TANGEDCO. With Ministry of Power (MoP) introducing standardisation norms under BIS-1180/2014 to bring back quality manufacturing in the sector, it 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, the above mentioned schemes would directly benefit ATPL in medium term.

Weaknesses

• Below-average financial risk profile

Financial risk profile of the group is below-average marked by high gearing (Debt-Equity), total outside liabilities to total net worth (TOL/TNW), and moderate debt protection metrics. Gearing deteriorated and stood at 2.45 times as on 31 March, 2019 as against 1.31 times as on 31 March, 2018. TOL/TNW stood at 4.82 times as on 31 March, 2019 (Prov) as against 4.29 times as on 31 March, 2018. Net worth stood modest at Rs.4.76 crore as on 31 March, 2019 (Prov) as against Rs.2.33 crore as on 31 March, 2018. The increase in net worth is the result of capital infusion of Rs.2.1 crore in Sarayu Engineering. Of the total debt of Rs.11.64 crore as on 31 March, 2018, unsecured loan constitutes of Rs.0.22 crore and short term debt of Rs.11.42 crore. Debt protection metrics of interest coverage ratio and net cash accruals to total debt are moderate at 2.02 times and 0.03 times respectively in FY2019 (Prov). The group reported cash accruals of Rs.0.38 crore for FY2019 (Prov). Further, repayment obligations are expected to be nil against annual cash accruals of about Rs.0.42 crore. Acuité believes that with modest accruals and working capital intensive operations, the financial risk profile continues to be at similar levels over the medium term.

• Working capital intensive operations

Operations of the group are working capital intensive marked by high gross current assets (GCA) at 248 days in FY2019 (Prov) against 276 days in FY2018. High GCA days is on account of moderately high debtors which stood at 248 days in FY2019 (Prov) as against 276 days in FY2018. Inventory days improved to 29 days in FY2019 (Prov) as against 106 days in FY2018 as the group procured raw material due to orders to be executed in FY2019. Bank limit utilisation of ATPL and Sarayu Engineering stood at about 85 percent and 56 percent for the last six months through March 2019. Acuité believes that the operations are expected to be working capital intensive over the medium term basis the business dependency on Government entities, wherein the inventory off-take is basis the requirement and sometimes skewed towards yearend.

• Customer concentration risk

Group derives over 80% of its revenue on selling distribution of transformers to TANGEDCO. This places the group at a significant customer concentration risk. This leaves the group vulnerable to its pricing power and completely exposed to infra development and spend by TANGEDCO.

• Tender based business

The group deals mainly with TANGEDCO which provide orders on tender basis. Going forward, the group's ability to bid for large orders and qualify for the same remains to be seen.

Liquidity Position:

Liquidity of the group is stretched marked by high bank limit utilisation and working capital intensive operations. The group reported net cash accruals of Rs.0.38 crore in FY2019 (Prov) against Rs.0.16 crore in FY2018. Further, cash accruals are expected to be around Rs.0.50 crore over the medium term. Operations are working capital intensive due to stretch in debtors for 164 days. Bank limit utilisation is about 85% and 56% for ATPL and Sarayu Engineering respectively. Current ratio stood at 1.12 times in FY2019 (Prov). Acuité believes that the liquidity is expected to be at similar levels owing to expected increase in revenues and working capital intensive operations.

Outlook: Stable

Acuité believes that Associated Group will maintain a 'Stable' outlook over the medium term owing to its experienced management in the transformer industry. The outlook may be revised to 'Positive' in case of higher-than-expected growth in its revenues while maintaining stable profitability and improving its capital structure. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital management or sharp decline in revenues and profitability leading to deterioration of its liquidity and financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	12.52	12.61	29.88
EBITDA	Rs. Cr.	0.32	0.14	0.55
PAT	Rs. Cr.	0.11	(0.05)	0.35
EBITDA Margin	(%)	2.55	1.11	1.85
PAT Margin	(%)	0.85	(0.41)	1.17
ROCE	(%)	6.48	3.45	11.11
Total Debt/Tangible Net Worth	Times	1.31	0.86	0.74
PBDIT/Interest	Times	1.84	1.43	2.72
Total Debt/PBDIT	Times	7.77	9.43	3.17
Gross Current Assets(Days)	Days	276	162	162

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-17.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Consolidation of Companies- <https://www.acuite.in/view-rating-criteria-22.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
01-Jun-2018	Cash Credit	Long Term	1.00	ACUITE B / Stable (Assigned)
	Bills Discounting	Long Term	6.00	ACUITE B / Stable (Assigned)
	Bank Guarantee	Short Term	2.00	ACUITE A4 (Assigned)

*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	2.00	ACUITE B+/Stable (Upgraded)
Bills Discounting	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE B+/Stable (Upgraded)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A4 (Reaffirmed)

Contacts

Analytical	Rating Desk
Srihari Adari Head - Corporate and Infrastructure Sector Ratings Tel: 040-40042327 srihari.adari@acuite.in P Krishi Keyan Analyst - Rating Operations Tel: 040-40274590 krishi.keyan@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in

About Acuite Ratings & Research:

Acuite Ratings & Research Limited (erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

Disclaimer: An Acuite rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuite ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuite, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuite is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuite ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuite.