

Press Release

Sarayu Engineering

October 27, 2020

Rating Withdrawn



Total Bank Facilities Rated*	Rs.9.00 Cr.
Long Term Rating	ACUITE B+ (Withdrawn)
Short Term Rating	ACUITE A4 (Withdrawn)

* Refer Annexure for details

Rating Rationale

Acuité has reviewed and withdrawn the long-term rating of '**ACUITE B+** (read as **ACUITE B plus**) and the short-term rating of '**ACUITE A4**' (read as **ACUITE A four**) on the Rs.9.00 crore bank facilities of Sarayu Engineering (SE). The rating withdrawal is in accordance with Acuité's policy on withdrawal of rating and on account of request received from the firm and no objection certificate received from bankers.

About the Firm

Established in 1989 by Mr. K.R Thangaraj and based out of Dindigul (Tamil Nadu), SE is engaged in the manufacture of distribution transformers. The entity mainly supplies transformers to Tamil Nadu Generation and Distribution Corporation Limited (TANGEDCO). The entity's proprietorship had 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

To arrive at the rating, Acuité 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. Extent of Consolidation: Full

Key Rating Drivers

Strengths

- Experienced management and long track record of operations**

The group has a very long track record of operations of nearly three decades and is involved in the manufacture of transformers. The promoter is a veteran in the industry with long-standing experience. Experience of the promoters helped in maintaining a healthy relationship with the existing customers.

Weaknesses

- Average financial risk profile**

The Group's financial risk profile is average marked by moderate gearing (debt to equity ratio), deteriorating total outside liabilities to total net worth (TOL/TNW), modest net worth and debt protection metrics. The gearing has stood moderate at 1.79 times as on 31 March, 2020 (Provisional) as against 3.35 times as on 31 March, 2019. TOL/TNW is at 2.85 times as on 31 March, 2020 (Provisional) as against 6.58 times as on 31 March, 2019. Tangible net worth of the company stood modest at Rs.4.86 Cr as on 31 March, 2020 (Provisional) as against Rs.3.35 Cr as on 31 March, 2019.

Debt protection metrics of interest coverage ratio and net cash accruals to total debt stood moderate at 2.31 times and 0.17 times, respectively in FY2020 (Provisional).

• **Working capital intensive operations**

The Group's working capital operations have improved but are still intensive marked by Gross Current Asset (GCA) of 197 days as on FY2020 (Provisional) as against 207 days in FY2019. The debtor's days were recorded at 153 days for FY2020 (Provisional) as against 164 days in FY2019. The credit period given to customers ranges from 60-120 days and the group enjoys a credit period of 60-120 days from its suppliers. The inventory days were recorded at 18 days in FY2020 (Provisional) against 30 days in FY2019. The company maintains an inventory policy of 60 to 120 days. The inventory is realizable stock and there are no deadstock/cancelled stock orders. The working capital limits remains utilized at ~60-70 percent for last six months ended September, 2020.

• **Customer concentration risk**

The group derives over 80% of its revenue on selling distribution of transformers to TANGEDCO. This places the group at a significant customer concentration risk.

Rating Sensitivities

- Improvement in the operating revenue and scale of operations while sustaining the margins
- Any stretch in working capital operations leading to the deterioration of its financial risk profile and liquidity

Material Covenants

None

Liquidity: Adequate

The group has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The group has generated cash accruals of Rs.1.50 Cr in FY2020 (Provisional), against moderate repayment obligations. The group maintains unencumbered cash and bank balances of Rs.0.13 Cr in FY2020 (Provisional). The current ratio of the group stood at 1.14 times in FY2020 (Provisional). The working capital limits are judiciously utilized at ~60-70 percent for September, 2020. The Group has not availed any COVID moratorium.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	25.51	36.16
PAT	Rs. Cr.	1.50	0.38
PAT Margin	(%)	5.89	1.06
Total Debt/Tangible Net Worth	Times	1.79	3.35
PBDIT/Interest	Times	2.31	1.51

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

None

Any other information

Not Applicable

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>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Consolidation of Companies - <https://www.acuite.in/view-rating-criteria-60.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
06-Oct-2020	Cash Credit	Long Term	2.00	ACUITE B+ (Indicative)
	Bills Discounting	Long Term	4.00	ACUITE B+ (Indicative)
	Bank Guarantee	Short Term	3.00	ACUITE A4 (Indicative)
19-Jul-2019	Cash Credit	Long Term	2.00	ACUITE B+/ Stable (Upgraded)
	Bills Discounting	Long Term	4.00	ACUITE B+/ Stable (Upgraded)
	Bank Guarantee	Short Term	3.00	ACUITE A4 (Reaffirmed)
02-Jun-2018	Cash Credit	Long Term	1.00	ACUITE B/ Stable (Assigned)
	Proposed Bills Discounting	Short Term	6.00	ACUITE A4 (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+ (Withdrawn)
Bills Discounting	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE B+ (Withdrawn)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A4 (Withdrawn)

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About Acuité Ratings & Research:

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