

Press Release

Sadhana Enviro Engineering Services

January 02, 2019



Rating Assigned

Total Bank Facilities Rated*	Rs. 6.00 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**) to the Rs. 6.00 crore bank facilities of Sadhana Enviro Engineering Services (SEES). The outlook is '**Stable**'.

SEES is a Proprietorship concern established in 2007, promoted by Mr. Nagaraj T S. SEES engages in manufacturing and assembling of Municipal Equipment such as Sewer Cleaning suction cum jetting machines, road sweeping machines and Garbage Compactors; majorly for Mysore City Corporation, Hubli Dharwad Municipal Corporation, Raichur Thermal Power Corporation Limited across the state of Karnataka. Apart from manufacturing/assembling and selling of machines, they carry out the after sales service activities, supply of spares/accessories, Operation and Maintenance of the equipment supplied to Corporations, Urban Boards, Water Boards among others.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of SEES to arrive at the rating.

Key Rating Drivers

Strengths

• Experience of the Promoter

The Promoter, Mr. T S Nagaraj has two decades of experience in the machine component industry. The promoter is involved in the functional areas of the business and has established longstanding relationships with suppliers and customers which helped in getting repeat orders from its clientele. It helped in improving the revenues at a compound annual growth rate of 19.20 percent over four years through FY2018. It has vintage clientele of Mysore City Corporation, Hubli Dharwad Municipal Corporation, Raichur Thermal Power Corporation Limited among others who are associated with the firm for over five years. Acuité believes that the firm is expected to benefit from the promoter's established presence and the relationship with the stakeholders in maintaining its stable business risk profile over the medium term.

Weaknesses

• Below average financial risk profile

The financial risk profile is marked by high gearing (debt-equity), high total outside liabilities to total net worth (TOL/TNW) and moderate debt protection metrics. The firm's gearing is high at 2.94 times as on March 31, 2018, an improvement from 3.67 times as on March 31, 2017. TOL/TNW stood high at 7.76 times as on March 31, 2018 as against 7.10 times in FY2017. The debt protection metrics of interest coverage ratio and net cash accruals to total debt stood moderate at 1.94 times and 0.06 times in FY2018. SEES expects cash accruals in the range of Rs.1.4 - 2.0 crore, against which its repayment obligations are Rs.1.20 crore per annum. Acuité believes that with moderate accruals and repayment obligations and working capital intensive operations, the financial profile of SEES is expected to be at similar levels over the medium term.

• Working capital intensive operations

The working capital intensive operations of the firm are marked by high Gross Current Assets (GCA) of about 234-268 days over the past two years through FY2018. High GCA is marked by high

receivables of about 245 days in FY2018 and 203 days in FY2017. High GCA lead to SEES's liquidity being fully utilised for over six months through November, 2018 leaving no scope for any financial flexibility. Acuité believes that with the nature of the business, and receivable cycle, the operations continue to be working capital intensive over the medium term.

Outlook: Stable

Acuité believes that SEES will maintain a 'Stable' outlook over the medium term on account of experienced management and healthy relations with its clientele. The outlook may be revised to 'Positive' in case the firm reports higher-than-expected revenues and accruals, while improving its capital structure. Conversely, the outlook may be revised to 'Negative' in case of any stretch in the working capital cycle impacting the financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	16.72	17.14	13.54
EBITDA	Rs. Cr.	1.64	1.83	1.25
PAT	Rs. Cr.	0.05	0.61	0.59
EBITDA Margin	(%)	9.83	10.70	9.24
PAT Margin	(%)	0.32	3.58	4.39
ROCE	(%)	16.06	21.34	40.29
Total Debt/Tangible Net Worth	Times	2.94	3.67	2.62
PBDIT/Interest	Times	1.94	1.80	2.20
Total Debt/PBDIT	Times	3.44	4.05	3.29
Gross Current Assets (Days)	Days	268	234	203

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/view-rating-criteria-4.htm>
- Entities In Services Sector - <https://www.acuite.in/view-rating-criteria-8.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.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. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.75	ACUITE B / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	0.75	ACUITE B / Stable
Bank guarantee/Letter of	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A4
Letter of credit	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE A4

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About Acuité Ratings & Research:

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