

Press Release

Eversendai Construction Private Limited

September 30, 2019



Rating Assigned

Total Bank Facilities Rated*	Rs. 571.50 Cr.
Long Term Rating	ACUITE BBB / Outlook: Stable (Assigned)
Short Term Rating	ACUITE A3+ (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long-term rating of '**ACUITE BBB**' (**read as ACUITE triple B**) and short-term rating of '**ACUITE A3+**' (**read as ACUITE A three plus**) on the Rs. 571.50 crore bank facilities of EVERSENDAI CONSTRUCTION PRIVATE LIMITED (ECPL). The outlook is '**Stable**'.

The rating assigned factors in long track record of operations of Eversendai Group in the structural steel industry, ability to execute complex projects globally, reputed client base and healthy order book position. However, the ratings are constrained by working capital intensive nature of operations, and slow execution of projects due to downturn in the construction sector. The ability of the company to successfully execute the projects in time and with no significant cost overruns, thereby improving scale of operations, profitability and working capital management, will remain the key rating sensitivities.

Incorporated in 2009, ECPL is a subsidiary of Eversendai Construction (S) Pte Ltd, Singapore, which is ultimately held by Eversendai Corporation Berhad (ECB), based in Malaysia. ECB was incorporated in 1984 and is involved in the business of Fabricated Structural Steel (FSS), composite structure and civil construction projects. ECPL has fabrication facility in Trichy with annual capacity of 48,000 tonnes and is currently, engaged in execution of supply-cum erection contracts as well as civil construction work.

Analytical Approach

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

Key Rating Drivers

Strengths

- Experienced management and well established position in the industry**

The Eversendai Group has well established position in the steel and construction industry. It is undertaking structural projects for high-rise buildings, power plants, oil & gas and industrial plants in the Asian and Middle Eastern regions. The group has presence in over 13 countries such as Malaysia, Singapore, Thailand, Philippines, Indonesia, Hong Kong, India, Oman, Saudi Arabia, Bahrain, Qatar, United Arab Emirates and Azerbaijan. ECPL is an EPC Contractor in Concrete, Steel and Composite structures, structural steel design, fabrication and erection of steelwork for high rise buildings, heavy industrial plants, stadiums, steel bridges, roof structures, infrastructure projects. The group has completed various landmark structures globally such as Burj Khalifa, Burj Al Arab, Petronas Twin Towers, Kuala Lumpur International Airport, Statue of Unity (Gujarat), Dhirubhai Ambani International Convention and Exhibition Centre (DAICEC), Gulita in Worli etc. to name a few.

Acuité believes that the company will continue to benefit from its established presence of the group, technical expertise, strong brand recognition and the extensive experience of management in the construction industry.

- Healthy order book position**

Due to established position in the market, ECPL has been able to get orders from reputed companies. ECPL's order book of Rs.1471.01 crore is to be executed within the next 1.5 - 2 years, which provides near to medium term revenue visibility. Its clientele includes reputed companies such as Reliance

Industries Limited, Samsung C & T India Private Limited, DLF Home Developers Limited, Larsen and Toubro Limited, Lodha Group, PRL Developers Private Limited (Piramal Group) amongst others. The order book of Rs.1471.01 crore is 3.85 times of FY2019 revenues.

Acuité believes that the healthy order book position is expected to provide adequate revenue visibility over the medium term.

- **Moderate financial risk profile**

The moderate financial risk profile of ECPL is marked by high tangible net worth, low gearing and moderate protection metrics. Networth stood at Rs.169.67 crore, which includes Rs.153.91 crore share capital and reserves of Rs.15.76 crore. Networth is supported by capital infusion from the parent company. Total debt of Rs.115.22 crore includes outstanding term loans of Rs.20.11 crore and working capital borrowings of Rs. 95.11 crore. The company has followed a conservative financial policy in the past that is reflected through its peak gearing of 0.69 times as on March 31, 2019 (Provisional). The leverage levels continue to remain low at 0.68 times as on March 31, 2019 (Provisional) against 0.76 times as on March 31, 2018. ECPL's cash accruals in the range of Rs.16-23 crores have supported in minimising the reliance on external debt. ECPL's cash accruals are estimated to remain in the range of Rs.24-40 crores, which will be sufficient for servicing debt obligations over the medium term. The healthy revenue levels coupled with improving operating margins have resulted in moderate debt protection metrics. Interest coverage ratio (ICR) stood at 2.25 times in FY2019 (Provisional) against 2.28 times in FY2018, while DSCR stood at 1.63 times in FY2019 (Provisional) as against 1.36 times in FY2018. Debt to EBITDA and NCA/TD have improved since last year. It stood at 2.84 and 0.21 times, respectively, in FY2019 (Provisional) against 3.14 and 0.16 times in FY2018.

Acuité believes that the financial risk profile of ECPL will continue to remain moderate over the near to medium term due to healthy order book position, stable operating performance and moderate debt protection measures.

Weaknesses

- **Slower execution of projects due to slowdown in the construction / real estate sector**

Although the order book of the company is healthy, it is exposed to risks of slowdown in the ongoing projects. Any delay or halt in the project on the part of the contractor will directly impact the project execution at ECPL's end. ECPL's order book consists of several slow moving projects such as Sumer Trinity (Sumer Builders), Sesen (Satellite Developers), Piramal Reventa (PRL Developers), Lodha to name a few. Further, two projects related to office building construction of APCRDA amounting to Rs.478.71 crore have been completely stalled.

Acuite believes that the company may witness challenges with respect to these stalled and slow moving projects in the near to medium term.

- **Working capital intensive nature of operations**

The working capital operations of the company are intensive inherent to the nature of industry. Working capital intensiveness is marked by high GCA days of 314 in FY2019 (Provisional) against 284 days in FY2018. The high GCA days are primarily on account of slower execution of projects (due to delay from contractor's end) and delay in realization of receivables. The inventory days stood at 197 in FY2019 (Provisional) against 153 days in FY2018 while debtors days stood at 67 days in FY2019 against 81 days in FY2018. Debtors stood at Rs.69.08 crore as on March 31, 2019 (PY: Rs.85.83 crore) excluding retention receivables. Moreover, debtors of Rs.24.09 crore are receivable for a period of more than six months as on March 31, 2019. Inventory stood at Rs.46.56 crores as on March 31, 2019 (PY: Rs.44.45) while unbilled revenue stood at Rs.139.39 crore as on March 31, 2019 (PY: Rs.102.35 crore).

Acuité believes that the ability of the company to manage its working capital operations effectively will remain a key rating sensitivity.

Rating Sensitivities

- Stretch in working capital cycle leading to increase in working capital borrowing and weakening of financial risk profile.
- Substantial improvement in scale of operation due to healthy order book while improving profitability margins over the near to medium term.

Material Covenants

- Debt/TNW shall not exceed 1.00 time.
- Debt/EBITDA shall not exceed 3.50 times.

Liquidity Position: Adequate

ECPL has adequate liquidity marked by net cash accruals in the range of Rs.16-24 crore against maturing debt obligations in the range of Rs.7-12 crore during the last three years. The operations are working capital intensive as marked by gross current asset (GCA) days of 314 in FY2019 (Provisional) as compared to 284 days in FY2018. The cash credit limit of the company remains utilized at ~80 per cent during the last twelve months period ended July 2019. The unencumbered cash and bank balances stood at Rs.15.71 crore as on March 31, 2019 (Provisional). The current ratio stood at 1.03 times as on March 31, 2019 (Provisional). Acuité believes that the liquidity of the company is likely to remain moderate over the medium term on account elongation in working capital cycle.

Outlook: Stable

Acuité believes ECPL will continue to maintain a 'Stable' outlook over near to medium term, owing to its established market position, experienced management and healthy order book position. The outlook may be revised to 'Positive' in case the company achieves sustained growth in revenues due to faster completion of projects and higher-than-expected improvement in profitability, working capital management and debt protection metrics. Conversely, the outlook may be revised to 'Negative' in case of significant decline in revenues due to delay in completion of projects and operating profit margins, or deterioration in the capital structure and liquidity position on account of higher-than-expected working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	382.58	385.38	219.44
EBITDA	Rs. Cr.	38.11	35.69	30.16
PAT	Rs. Cr.	6.37	5.27	4.91
EBITDA Margin	(%)	9.96	9.26	13.74
PAT Margin	(%)	1.67	1.37	2.24
ROCE	(%)	8.10	9.25	15.68
Total Debt/Tangible Net Worth	Times	0.68	0.76	0.62
PBDIT/Interest	Times	2.25	2.28	2.32
Total Debt/PBDIT	Times	2.84	3.14	3.17
Gross Current Assets (Days)	Days	314	284	380

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-17.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Infrastructure entities - <http://acuite.in/view-rating-criteria-14.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	15.00	ACUITE BBB / Stable
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	107.00	ACUITE A3+
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	40.00	ACUITE A3+
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	176.56	ACUITE A3+
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	182.44^	ACUITE A3+
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	36.50#	ACUITE A3+
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	14.00	ACUITE A3+

^ Overdraft of Rs.126.50 is sublimit of LC.

#Overdraft of Rs.19.00 is sublimit of LC.

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About Acuité Ratings & Research:

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