Press Release

Eversendai Construction Private Limited

January 12, 2021

Rating Reaffirmed

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

** Refer Annexure for details*

Rating Rationale

Acuité has reaffirmed the long-term rating of **'ACUITE BBB' (read as ACUITE triple B)** and the 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 factors in established 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 elongation in working capital cycle, and slow execution of projects due to downturn in the construction sector and pandemic. 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.

About Company

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. ECPL has fabrication facility in Trichy with annual capacity of 30,000 tonnes and is currently, the company is engaged in execution of supply-cum erection contracts as well as civil construction work. Mr. A.K Nathan Elumalay (Founder and Chairman) possess more than 3 decades of experience in the same line of business.

About Group

ECB was incorporated in 1984 and is involved in the business of Fabricated Structural Steel (FSS), composite structure and civil construction projects. The Eversendai Group has well established position in the steel and construction industry. The group has presence in over 13 countries and has completed various landmark structures globally.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Established position in the industry and experienced promoter group**

  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, and 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. Mr. A.K Nathan, has an extensive experience of over three decades in same line of business and has a team of experienced design engineers. The company is also well supported by experienced second line of management.

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 and reputed clientele**

Due to established position in the market, ECPL has been able to get recurring orders from reputed companies. ECPL's order book of Rs. 1,169.98 crore is to be executed within the next 1 to 3 years, which provides revenue visibility over near to medium term. The outstanding order book is 3.00 times of revenues for FY2020 (Provisional). The company caters to reputed clientele which includes well-known companies such as Reliance Industries Limited, Samsung C & T India Private Limited, DLF Home Developers Limited, Larsen and Toubro Limited, and Lodha Group amongst others. Acuité believes that the healthy order book position is expected to provide adequate revenue visibility over the medium term and reputed clientele base will reduce counterparty risk.

- **Moderate Financial risk profile**

ECPL's financial risk profile stood moderate marked by low gearing (debt to equity ratio), moderate total outside liabilities to total net worth (TOL/TNW), and debt protection metrics. The gearing stood low at 0.63 times as on March 31, 2020 (Provisional) as against 0.69 times as on 31 March, 2019. The Net worth of the company is comfortable at Rs. 174.04 crore as on March 31, 2020 (Provisional) as against Rs. 167.83 crore as on 31 March, 2019. The improvement in net worth is on account of retention of profits into the business. The total debt of Rs. 109.75 crore as on March 31, 2020 (Provisional) consist of long term debt of Rs.12.91 crore and short term debt of Rs. 96.84 crore. The interest coverage ratio stood comfortable at 2.71 times as on March 31, 2020 (Provisional) as against 2.28 times as on 31 March, 2019. The net cash accruals to total debt stood comfortable at 0.26 times in FY2020 (Provisional) and 0.19 times in the previous year. The Debt Service Coverage Ratio (DSCR) stood at 1.57 times as on March 31, 2020 (Provisional) as against 1.56 times as on 31 March, 2019.

Weaknesses

- **Working capital intensive nature of operations**

The Gross Current Asset (GCA) days stood at 394 days as on March 31, 2020 (Provisional) as against 334 days as on March 31, 2019. The debtor's days stood at 64 days as on March 31, 2020 (Provisional) as against 80 days in FY2019. The inventory days has increased significantly to 311 days as on March 31, 2020 (Provisional) as against 198 days in FY2019, due to hold back of inventory at the facility for steel structures contracts due to nationwide lockdown. The working capital limits are utilized at 70.00 percent for six months ending November, 2020, however, bank guarantee is utilised at 85.00 percent during six months ending November, 2020. Acuité believes that the ability of the company to effectively manage its working capital cycle will remain a key rating sensitivity.

- **Highly competitive and fragmented industry marked by tender based nature of operations**

The company operates in the civil construction industry marked by intense competition from several mid to big sized players. The company faces intense competition from the other well established players in the sector. Further, margins remain affected by the risk to become more pronounced as tendering is based on minimum amount of biding of contracts. The same can be seen through uneven margins during last three years ending FY2020 (Provisional). Being a civil contractor, the revenue of ECPL depends on the number of successful bids and availability of fresh tenders for bidding from the private players. The industry has witness slowdown due to pandemic and is expected to have short term impact for revival of operations to normalcy. However, ECPL is safeguarded by longstanding

relationship with reputed players ensuring regular flow of order and establish position in steel structure segment, which contributes more than 50 percent of the revenues.

Liquidity Position: Adequate

Liquidity of ECPL's is adequate marked by comfortable cash accruals of Rs.19.80 to 29.00 crores against repayment obligations of Rs. 5.50-11.78 crores during FY2018-2020. The accruals are expected to be in the range of 20 to 30.00 crores against repayment obligation of Rs.6.00 -11.50 crores during FY2021-23. The current ratio of the company stood low at 1.00 times as on March 31, 2020 (Provisional). It has unencumbered cash balances of Rs. 7.59 crore as on March 31, 2020 (Provisional). The net cash accruals to total debt stood at 0.26 times in FY2020 (Provisional) and 0.19 times in the previous year.

Rating Sensitivities

- Stretch in working capital cycle leading to higher 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.

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 substantial growth in revenues due to faster completion of projects and higher-than-expected improvement in profitability along with well managed working capital cycle 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	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	384.36	382.37
PAT	Rs. Cr.	5.87	4.54
PAT Margin	(%)	1.53	1.19
Total Debt/Tangible Net Worth	Times	0.63	0.69
PBDIT/Interest	Times	2.71	2.28

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

None

Any other information

None

Any Material Covenants

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

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
- Infrastructure Entities - https://www.acuite.in/view-rating-criteria-51.htm
- Entities In Services Sector -https://www.acuite.in/view-rating-criteria-50.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
05-Nov-2020	Cash Credit	Long Term	50.00	ACUITE BBB/Stable (Reaffirmed)
	Working capital demand Loan	Long Term	9.00	ACUITE BBB/Stable (Assigned)
	Proposed Bank Facility	Long Term	0.50	ACUITE BBB/Stable (Reaffirmed)
	Letter of Credit	Short Term	40.00*	ACUITE A3+ (Reaffirmed)
	Bank Guarantee	Short Term	176.56	ACUITE A3+ (Reaffirmed)
	Bank Guarantee	Short Term	88.00 (reduced from 107)	ACUITE A3+ (Reaffirmed)
	Letter of Credit	Short Term	182.44^	ACUITE A3+ (Reaffirmed)
	Bank Guarantee	Short Term	25.00	ACUITE A3+ (Reaffirmed)
30-Sep-2019	Letter of Credit	Short Term	40.00	ACUITE A3+ (Assigned)
	Bank Guarantee	Short Term	107.00	ACUITE A3+ (Assigned)
	Bank Guarantee	Short Term	36.50#	ACUITE A3+ (Assigned)
	Bank Guarantee	Short Term	176.56	ACUITE A3+ (Assigned)
	Letter of Credit	Short Term	182.44^	ACUITE A3+ (Assigned)
	Letter of Credit	Short Term	14.00	ACUITE A3+ (Assigned)
	Cash Credit	Long Term	15.00	ACUITE BBB/Stable (Assigned)

**Sub limit of CC/WCDL of Rs. 20.00 crores*
^Overdraft of Rs.126.50 is sublimit of LC.
#Overdraft of Rs.19.00 is sublimit of LC.

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Amount (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE BBB/Stable (Reaffirmed)
Working capital demand Loan	Not Applicable	Not Applicable	Not Applicable	9.00	ACUITE BBB/Stable (Reaffirmed)
Overdraft	Not Applicable	Not Applicable	Not Applicable	149.43^	ACUITE BBB/Stable (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	4.50	ACUITE BBB/Stable (Reaffirmed)

Letter of Credit	Not Applicable	Not Applicable	Not Applicable	40.00*	ACUITE A3+ (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	205.57	ACUITE A3+ (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	88.00	ACUITE A3+ (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE A3+ (Reaffirmed)

**Sub limit of CC/WCDL of Rs. 20.00 crores*
^Overdraft of Rs.126.50 is sublimit of LC.

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About Acuité Ratings & Research:
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