Press Release

Siddhartha Engineering Limited (SEL)

13 May, 2020

Rating Assigned

Total Bank Facilities Rated*	Rs. 75.00 Cr.
Long Term Rating	ACUITE BB+/Stable (Assigned)
Short Term Rating	ACUITE A4+ (Assigned)

** Refer Annexure for details*

Rating Rationale

Acuité has assigned the long term rating of **'ACUITE BB+' (read as ACUITE double B plus)** and short term rating of **'ACUITE A4+' (read as ACUITE A four plus)** to the Rs.75.00 crore of bank facilities of Siddhartha Engineering Limited (SEL). The outlook is **'Stable'**.

SEL, an Orissa based entity was established in 1972 as a partnership firm and reconstituted as private limited company in 1986, subsequently as public limited company with the present name in 2008. The company is engaged in design, supply, erection, commission and testing of electrical substations for various government organizations. Currently the company is managed by Mr. Sudhansu Sekhar Palo, Mr. Sidhartha Palo and Mrs. Madhuri Palo who have extensive experience in transmission tower and electrical sub-station business. The company has been regularly supplying to Power Grid Corporation of India Ltd, Manipur, Bhutan Power Corporation Limited, Odisha Power Transmission Corporation Limited (ACUITE A-/Stable) (OPTCL), Tripura State Electricity Corporation Limited among others.

Analytical Approach:

Acuité has considered standalone business and financial risk profile of SEL while arriving at the rating.

Key Rating Drivers:

Strengths

Experienced management and long track record of operation

SEL an Orissa based company was started in 1972 as a partnership firm and constitution was changed in 2008. The company since inception has been engaged in design, supply, erection, commission and testing of electrical substations for various government organizations. The entity was promoted by Mr. Sudhansu Sekhar Palo who has more than four decades of experience in transmission tower and electrical sub-station business. The other directors Mr. Sidhartha Palo and Mrs. Madhuri Palo also have more than two decades experience in aforementioned industry. The longstanding experience of the management and long track record of operations have helped the company to establish relationship with reputed clients such as Power Grid Corporation of India, OPTCL etc. The company has also healthy relations with its key raw material suppliers.

Healthy financial risk profile

The healthy financial risk profile of the company is marked by modest net worth, comfortable gearing and healthy debt protection metrics. The net worth of the company stood healthy at Rs.41.66 crore in FY2019 as compared to Rs.37.33 crore in FY2018. The increase in networth is on account of accretion to reserves. The gearing of the company stood comfortable at 0.74 times as on March 31, 2019 when compared to 0.98 times as on March 31, 2018. The total debt of Rs.30.63 crore in FY2019 consists of only short term debt from bank. Interest coverage ratio (ICR)stood at 1.81 times in FY2019 as against 2.26 times in FY 2018. The debt service coverage ratio stood at 1.60 times in FY2019 as against of 1.87 times in FY2018. The net cash accrual against total debt (NCA/TD) stood at 0.16 times in FY 2019 as compared to 0.18 times in previous year. Acuité believes the financial risk profile of the company will be comfortable backed by steady accruals and no major debt funded capex plan.

Weaknesses

Working capital intensive nature of operation
The working capital intensive nature of operations is marked by high gross current asset (GCA) days of 149 days in FY2019 as compared to 75 days in FY2018. The inventory days are moderate at 63 days in FY2019 as compared to 16 days in FY2018. The debtor days are also stands high at 88 days in FY2019 and 53 days in FY2018 respectively. Company's operations are expected to remain working capital intensive, as the company is engaged in turnkey project for electrical sub-station, which has high work in progress inventory due to the long tenure of the project. The receivables position of the company is also stretched with around 50 percent being outstanding for more than six months as on March 31, 2019.

Modest scale of operation
Though the company has started operation since 1972, the revenue of the company stood moderate at Rs.87.06 crore in FY2019 as compared to Rs.124.34 crore in FY2018. The revenue decline in FY2019 could be partly attributable to the imposition of GST during the year. The company has earned Rs.90.06 crore till 29th Feb 2020 (Prov.) as compared to Rs.69.62 crore in the same period of corresponding year. The current year revenues have also been at subdues levels due to the cyclone 'Fani' in Orissa in April 2019 which affected operations for a few months in the state. Acuité believes that the improvement in the scale of operations along with bagging of fresh orders would be a key rating sensitivity factor for the company.

Rating Sensitivity

- Scaling up of operations while maintaining their profitability margin.
- Working capital management

Material Covenant

None

Liquidity Position: Adequate

The company has adequate liquidity marked by modest net cash accruals of Rs.4.84 crore as against no major yearly debt obligations. The cash accruals of the company are estimated to remain in the range of around Rs. 7.14 crore to Rs. 11.20 crore during 2020-22 against no repayment obligations. The working capital intensity of the company is marked by gross current asset days of 149 days in FY2019. The bank limit is 100 per cent utilized by the company and the company maintains unencumbered cash and bank balances of Rs. 0.24 crore as on March 31, 2019. The current ratio of the company stood at 1.09 times as on March 31, 2019.Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of stable cash accruals against no debt repayments over the medium term.

Outlook: Stable

Acuité believes SEL will maintain a stable business risk profile over the medium term. SEL will continue to benefit from its experienced management and established association with its customers and suppliers. The outlook may be revised to "Positive" in case the company registers strong growth in scale of operations while registering sustained improvement in profit margins and achieving improvement in working capital management. The outlook may be revised to 'Negative' in case of deterioration in the company's scale of operations and profitability or capital structure, or in case of further elongation of working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	87.06	124.34
PAT	Rs. Cr.	4.33	5.68
PAT Margin	(%)	4.97	4.57
Total Debt/Tangible Net Worth	Times	0.74	0.98
PBDIT/Interest	Times	1.81	2.26

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
- Service Entities – https://www.acuite.in/view-rating-criteria-50.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	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	18.78	ACUITE BB+/Stable (Assigned)
Letter of Credit*	Not Applicable	Not Applicable	Not Applicable	7.62	ACUITE A4+ (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	48.60	ACUITE A4+ (Assigned)

*One way inter-changeability from LC to BG limits to the extent of Rs.3.75 crore.

Contacts

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About Acuité Ratings & Research:
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