

Press Release

Siddhartha Engineering Limited

March 12, 2021

Rating Reaffirmed & Assigned



Total Bank Facilities Rated*	Rs. 157.50 Cr. (Enhanced from Rs.90.00 crore)
Long Term Rating	ACUITE BBB-/Stable (Reaffirmed & Assigned)
Short Term Rating	ACUITE A3 (Reaffirmed & Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed and assigned the long term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) and short term rating of '**ACUITE A3**' (**read as ACUITE A three**) on the Rs.157.50 crore bank facilities of Siddhartha Engineering Limited (SEL). The outlook is '**Stable**'.

SEL is an Orissa based entity was established in 1972 as a partnership firm and reconstituted as a private limited company in 1986, subsequently as a public limited company with the present name in 2008. The company is engaged in design, supply, erection, and 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.

Analytical Approach:

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

Key Rating Drivers:

Strengths

Established track record of operation and experienced management

Established in 1972 as a partnership firm and then reconstituted as a public limited company in 2008- the company has a long track record of more than four decades in the business. The promoter of the company Mr. Sudhanshu Sekhar Palo, possesses more than four decades of experience in the business of transmission tower and electrical sub-station. The other directors Mr. Sidhartha Palo and Mrs. Madhuri Palo also have more than two decades of experience in the same industry. The company has a long presence in this sector and has established a healthy relationship with customers for more than two decades.

Healthy financial risk profile

The financial risk profile of the company is marked by healthy net worth, low gearing and comfortable debt protection metrics. The net worth of the company stood healthy at Rs.46.14 crore in FY 2020 as compared to Rs 41.66 crore in FY2019. This improvement in networth is mainly due to the retention of current year profit. The gearing of the company stood low at 0.77 times as on March 31, 2020 when compared to 0.74 times as on March 31, 2019. The total debt of Rs.35.45 crore in FY2020 consists of only short term debt from bank. Interest coverage ratio (ICR) is comfortable and stood 1.74 times in FY2020 as against 1.81 times in FY 2019. The debt service coverage ratio (DSCR) of the company also stood healthy at 1.56 times in FY2020 as compared to 1.81 times in the previous year. The net cash accruals to total debt (NCA/TD) stood comfortable at 0.14 times in FY2020 as compared to 0.16 times in the previous year. Going forward, Acuité believes the financial risk profile of the company will remain healthy, backed by no major debt funded capital expenditure plan over the medium term along with steady cash accruals.

Healthy profitability margin

Though the operating profitability margin of the company have slightly declined but still stood healthy at 14.72 per cent in FY2020 as compared to 15.46 per cent in the previous year. This deterioration in operating profitability margin is on account of increase in labour cost during the period. The net profitability margin of the company stood healthy at 4.69 per cent in FY2020 as compared to 4.79 per cent in the previous year. Acuité believes the profitability margin of the company will be sustained at healthy levels over the medium term backed by the management's focus on the bottom line and bid in projects accordingly.

Weaknesses

Working capital intensive nature of operation

The working capital intensive nature of operation of the company is marked by high gross current asset (GCA) days of 341 days in FY2020 as compared to 354 days in the previous year. The inventory holding period of the company has increased to 98 days in FY2020 as compared to 63 days in the previous year. This increase in inventory is due to work-in-progress inventory pile up during the year end, which coincided with the nationwide lockdown. The debtor days of the company stood high at 245 days in FY2020 as compared to 293 days in the previous year. Acuité believes that the ability of the company to manage its working capital operations efficiently will remain a key rating sensitivity.

Moderate scale of operation

The revenue of the company stood moderate at Rs.96.78 crore in FY2020 as compared to Rs.87.06 crore in the previous year. This improvement in revenue of the company is mainly on account of increase in project execution during the period. Currently, the company has achieved Rs. 63.27 crore till 31st December 2020 (Provisional). The company has healthy unexecuted order book of Rs. 271.64 crore as on 31st December 2020. Acuité believes that the healthy and diversified order book of the company provides strong revenue visibility over the near term.

Rating Sensitivity

- Ramp up of operations while maintaining their profitability margin
- Sustenance of their conservative capital structure
- Working capital management

Material Covenant

None

Liquidity Position: Adequate

The company has adequate liquidity marked by healthy net cash accruals of Rs.5.00 crore as against nil term debt obligations in FY2020. The cash accruals of the company are estimated to remain in the range of around Rs. 5.62 crore to Rs. 7.79 crore during 2021-23 as against Rs. 0.58 crore of long term debt obligations in FY2021, and Rs.2.67 crore of long term obligation in FY2022 and in FY2023, respectively. The current ratio of the company stood comfortable at 1.62 times in FY2020. The bank limit of the company has been ~71 percent utilized during the last six months ended in February 2021. However, the working capital management of the company is marked by Gross Current Asset (GCA) days of 341 days in FY2020. Moreover, the company has availed the covid emergency fund of Rs. 9.75 crore. The said loan is to be repaid over a period of 4 years including 1 year moratorium. The company has also availed the loan moratorium till August 2020. Acuité believes that the liquidity of the company is likely to remain healthy over the medium term on account of healthy cash accruals.

Outlook: Stable

Acuité believes the company will maintain a stable business risk profile over the medium term. The company will continue to benefit from its experienced management and established association with customers and suppliers along with a healthy financial risk profile. The outlook may be revised to "Positive" in case the company registers significant improvement in scale of operations while sustaining their profit margins and achieving efficient 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	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	96.78	87.06
PAT	Rs. Cr.	4.54	4.33
PAT Margin	(%)	4.69	4.97
Total Debt/Tangible Net Worth	Times	0.77	0.74
PBDIT/Interest	Times	1.74	1.81

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-52.htm>
- Service Sector – <https://www.acuite.in/view-rating-criteria-50.htm>
- Financial Ratios And Adjustments – <https://www.acuite.in/view-rating-criteria-53.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
03-Mar-2021	Cash Credit	Long Term	17.00	ACUITE BBB-/Stable (Upgraded)
	Cash Credit	Long Term	1.78	ACUITE BBB-/Stable (Upgraded)
	Letter of Credit	Short Term	7.62	ACUITE A3 (Upgraded)
	Bank Guarantee	Short Term	41.75	ACUITE A3 (Upgraded)
	Bank Guarantee	Short Term	21.85	ACUITE A3 (Upgraded)
13-May-2020	Cash Credit	Long Term	18.78	ACUITE BB+/Stable (Assigned)
	Letter of Credit	Short Term	7.62	ACUITE A4+ (Assigned)
	Bank Guarantee	Short Term	48.60	ACUITE A4+ (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	17.00	ACUITE BBB-/Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB-/Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB-/Stable (Assigned)
Working Capital Demand Loan	Not Applicable	Not Applicable	Not Applicable	4.84	ACUITE BBB-/Stable (Assigned)
Working Capital Demand Loan	Not Applicable	Not Applicable	Not Applicable	2.97	ACUITE BBB-/Stable (Assigned)

Working Capital Demand Loan	Not Applicable	Not Applicable	Not Applicable	1.94	ACUITE BBB-/Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	15.00*	ACUITE A3 (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	38.00	ACUITE A3 (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	35.75	ACUITE A3 (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	22.00	ACUITE A3 (Assigned)

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

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About Acuité Ratings & Research:

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