

Press Release

Siddhartha Engineering Limited

November 02, 2021

Rating Reaffirmed & Assigned



Total Bank Facilities Rated*	Rs. 158.50 Cr. (Enhanced from Rs.157.50 Cr.)
Long Term Rating	ACUITE BBB-/Stable (Reaffirmed)
Short Term Rating	ACUITE A3 (Reaffirmed & Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and the short term rating of '**ACUITE A3**' (read as **ACUITE A three**) to the Rs.158.50 Cr bank facilities of Siddhartha Engineering Limited (SEL). The outlook is '**Stable**'.

The rating continues to reflect the extensive experience of the management and healthy profitability margin during the period. The rating also takes into account the comfortable financial risk profile and healthy order book position of the company. However, these strengths are partially offset by the working capital intensive nature of operation.

About the company

SEL is an Orissa based entity which 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, 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:

Acuite 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. Sudhansu 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 experienced 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 profitability margin

The operating profitability margin of the company has slightly improved and stood healthy at 14.75 per cent in FY2021 as compared to 14.72 per cent in FY2020. This slight improvement is on account of decrease in job work expenses during the period. The net profitability margin of the company also stood healthy at 5.57 per cent in FY2021 as compared to 4.69 per cent in the previous year. Acuite 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.

Comfortable financial risk profile

The financial risk profile of the company is marked by modest net worth, low gearing and comfortable debt protection metrics. The net worth of the company stood moderate at Rs.51.37 crore in FY 2021 as compared to Rs 46.14 crore in FY2020. This improvement in network is mainly due to the retention of current year profit. The gearing of the company has stood low at 0.58 times as on March 31, 2021 when compared to 0.77 times as on March 31, 2020. This improvement in gearing is on account of decrease in short term debt utilization.

Interest coverage ratio (ICR) stood at 2.04 times in FY2021 as against 1.74 times in FY 2020. The debt service coverage ratio (DSCR) of the company stood at 2.04 times in FY2021 as compared to 1.56 times in the previous year. The net cash accruals to total debt (NCA/TD) stood at 0.19 times in FY2021 as compared to 0.14 times in the previous year. Going forward, Acuite believes the financial risk profile of the company will remain healthy on account of steady net cash accruals and no major debt funded capex plan over the near term.

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 327 days in FY2021 as compared to 341 days in the previous year. The inventory holding period of the company has relatively high at 89 days in FY2021 as compared to 98 days in the previous year. This high inventory is due to work-in-progress inventory pile up during the year end. The debtor days of the company stood high at 244 days in FY2021 as compared to 245 days in the previous year. Acuite 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.93.78 crore in FY2021 as compared to Rs.96.78 crore in the previous year. Currently the company has achieved Rs. 33.39 crore till 31st July 2021 (Provisional). The company has a healthy unexecuted order book of Rs. 252.39 crore as on 31st July 2021. Acuite believes that the healthy and diversified order book of the company provides strong revenue visibility over the near term.

Rating Sensitivity

- Scaling 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 moderate net cash accruals of Rs.5.63 crore in FY2021 as against of Rs.5.00 crore in the previous year. The cash accruals of the company are estimated to remain in the range of around Rs. 7.31 crore to Rs. 10.03 crore during 2022-24 as against Rs.2.52 crore in FY2022 and in FY2023 of long term debt obligations. The current ratio of the company stood comfortable at 2.01 times in FY2021. The bank limit of the company has been ~71 per cent utilized during the last six months ended in September 2021. The working capital management of the company is marked by high Gross Current Asset (GCA) days of 327 days in FY2021. The company has availed COVID emergency fund of Rs.7.57 crore. The said loan is to be repaid over a period of 4 years including, 1 year of moratorium. Acuite also believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy cash accruals against long debt repayments over the medium term.

Outlook: Stable

Acuite 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 and sustain its 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 (Standalone)

	Unit	FY21 (Actual)	FY20 (Actual)
Operating Income	Rs. Cr.	93.78	96.78
PAT	Rs. Cr.	5.23	4.54
PAT Margin	(%)	5.57	4.69
Total Debt/Tangible Net Worth	Times	0.58	0.77
PBDIT/Interest	Times	2.04	1.74

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
12-Mar-2021	Cash Credit	Long Term	17.00	ACUITE BBB-/Stable (Reaffirmed)
	Cash Credit	Long Term	10.00	ACUITE BBB-/Stable (Reaffirmed)
	Cash Credit	Long Term	10.00	ACUITE BBB-/Stable (Assigned)
	Working Capital Demand Loan	Long Term	4.84	ACUITE BBB-/Stable (Assigned)
	Working Capital Demand Loan	Long Term	2.97	ACUITE BBB-/Stable (Assigned)
	Working Capital Demand Loan	Long Term	1.94	ACUITE BBB-/Stable (Assigned)
	Letter of Credit	Short Term	15.00*	ACUITE A3 (Reaffirmed)
	Bank Guarantee	Short Term	38.00	ACUITE A3 (Reaffirmed)
	Bank Guarantee	Short Term	35.75	ACUITE A3 (Reaffirmed)
03-Mar-2021	Bank Guarantee	Short Term	22.00	ACUITE A3 (Assigned)
	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)
13-May-2020	Bank Guarantee	Short Term	21.85	ACUITE A3 (Upgraded)
	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**

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
State Bank of India	Cash Credit	Not Applicable	Not Applicable	Not Applicable	17.00	ACUITE BBB-/Stable (Reaffirmed)
Canara Bank	Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB-/Stable (Reaffirmed)
IDBI Bank	Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB-/Stable (Reaffirmed)
State Bank of India	Working Capital Demand Loan	Not Applicable	Not Applicable	Not Applicable	4.84	ACUITE BBB-/Stable (Reaffirmed)
Canara Bank	Working Capital Demand Loan	Not Applicable	Not Applicable	Not Applicable	2.97	ACUITE BBB-/Stable (Reaffirmed)
IDBI Bank	Working Capital Demand Loan	Not Applicable	Not Applicable	Not Applicable	1.94	ACUITE BBB-/Stable (Reaffirmed)
State Bank of India	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	15.00*	ACUITE A3 (Reaffirmed)
State Bank of India	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	38.00	ACUITE A3 (Reaffirmed)
Canara Bank	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	35.75	ACUITE A3 (Reaffirmed)
IDBI Bank	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	22.00	ACUITE A3 (Reaffirmed)

Not Applicable	Proposed Short Term Facility	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A3 (Assigned)
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