

Press Release

Siddhartha Engineering Limited

January 31, 2023



Rating Downgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	40.33	ACUITE BB+ Negative Downgraded Stable to Negative	-
Bank Loan Ratings	118.17	-	ACUITE A4+ Downgraded
Total Outstanding Quantum (Rs. Cr)	158.50	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has downgraded the long term rating to '**ACUITE BB+**' (read as **ACUITE double B plus**) from '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and the short term rating to '**ACUITE A4+**' (read as **ACUITE A four plus**) from '**ACUITE A3**' (read as **ACUITE A three**) to the Rs.158.50 Cr bank facilities of Siddhartha Engineering Limited (SEL). The outlook is revised to '**Negative**' from 'Stable'.

Rationale for the rating

The rating downgrade and outlook revision is on account of a deterioration in their liquidity position due to elongated Gross Current Asset (GCA) days during FY2022 and in 9MFY2022-23 on account of payment delays from their customers. The stretched liquidity of the company has led to instances of LC devolvement during the month of November 2022 and the same has been regularised in December 2022.

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

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Strengths

Long track record of operation and experienced management-

SEL is an Odisha based company, which was incorporated in 1972 as a partnership firm, and constitution was changed in 2008. The entity 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 a long presence in this sector and has established a healthy relationship with customers for more than a decade.

Healthy Profitability margin

The operating profitability margin of the company stood healthy at 14.16 per cent in FY2022 as compared to 14.75 per cent in FY2021. This slight deterioration in operating profitability is on account of increase employee cost and administrative cost during the period. Going forward, Acuite believes the profitability margin of the company will be sustained at a healthy level over the medium term backed by their focus on the bottom line and bid in project accordingly. Further, the operating profitability margin of the company also stood healthy at 16.78 percent during 9MFY2023.

The net profitability margin of the company stood healthy at 5.02 per cent in FY2022 as compared to 5.57 per cent in FY2021.

Above average financial risk profile

The financial risk profile of the company is marked by modest net worth, low gearing and moderate debt protection metrics. The net worth of the company stood modest at Rs.56.12 crore in FY2022 as compared to Rs.51.27 crore in FY2021. This improvement in networth is mainly due to the retention of profit during FY2022. The gearing of the company stood at 0.76 times as on March 31, 2022 when compared to 0.58 times as on March 31, 2021. Interest coverage ratio (ICR) is comfortable and stood at 2.05 times in FY2022 as against 2.04 times in FY2021. The debt service coverage ratio (DSCR) of the company also stood comfortable at 1.28 times in FY2022 as compared to 1.76 times in the previous year. The net cash accruals to total debt (NCA/TD) stood moderate at 0.13 times in FY2022 as compared to 0.19 times in the previous year. Going forward, Acuite believes the financial risk profile of the company will remain comfortable on account of moderate net cash accruals and no major debt funded capex plan over the near term.

Weaknesses

Moderate scale of operation –

The revenue of the company stood moderate at Rs.94.65 crore in FY2022 as compared to Rs.93.78 crore in the previous year. Currently the company has booked Rs.87.98 crore till 31st December 2022 (prov). Going forward, Acuite believes that the revenue of the company will be maintained at moderate level backed by a healthy orderbook of Rs.247.62 crore as on November 2022.

Working capital intensive nature of operation –

The working capital management of the company is marked by high gross current asset (GCA) days of 414 days in FY2022 as compared to 327 days in the previous year. This high GCA days is on account of high debtor days of 314 days in FY2022 as compared to 244 days in the previous year. The inventory days of the company stood high at 107 days in FY2022 as compared to 89 days in the previous year. This high inventory is due to work-in-progress inventory pile up during the year end. Acuite believes that the ability of the company to manage its working capital operations efficiently will remain a key rating sensitivity.

Rating Sensitivities

- Deterioration in liquidity position
- Scaling up of operations while maintaining their profitability margin
- Sustenance of their conservative capital structure
- Further elongation in working capital management

Material covenants

No

Liquidity Position

Stretched

The company has a stretched liquidity position marked by almost full utilization of bank limits in the past 3 months ended December'22. This has also led to LC devolvments in November'22. The working capital intensity of the company is marked by high gross current asset (GCA) days 414 days in FY2022. However, the net cash accruals of Rs.5.65 crore as against Rs.2.82 crore long term debt obligations in FY2022. The cash accruals of the company are estimated to remain in the range of around Rs. 7.94 crore to Rs.9.32 crore during 2023-24 as against Rs.2.96 crore of long term debt obligations in FY2023 and Rs.,1.79 crore in FY2024 respectively. The current ratio of the company stood comfortable at 1.65 times in FY2022. Acuité believes that the liquidity of the company is likely to remain stretched over the medium term on account of elongated working capital management marked by continuous increasing of collection period.

Outlook: Negative

Acuité has revised the outlook on SEL to 'Negative' on account high working capital intensity leads to a deterioration in their liquidity position. The rating may be downgraded if there is further elongation in debtors leading to a further deterioration in liquidity. The outlook may be revised to 'Stable' if there is a significant improvement in the receivables position of the company thus providing comfort to the liquidity position. Also, the company has to maintain their financial risk profile parameters.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	94.65	93.78
PAT	Rs. Cr.	4.75	5.23
PAT Margin	(%)	5.02	5.57
Total Debt/Tangible Net Worth	Times	0.76	0.58
PBDIT/Interest	Times	2.05	2.04

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

Care Ratings vide its press release dated 24.11.2022, had reaffirmed the company to CARE BB-/A4; INC.

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.htm>
- Service Sector: <https://www.acuite.in/view-rating-criteria-50.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
02 Nov 2021	Cash Credit	Long Term	10.00	ACUITE BBB- Stable (Reaffirmed)
	Bank Guarantee	Short Term	38.00	ACUITE A3 (Reaffirmed)
	Working Capital Demand Loan	Long Term	2.97	ACUITE BBB- Stable (Reaffirmed)
	Bank Guarantee	Short Term	22.00	ACUITE A3 (Reaffirmed)
	Cash Credit	Long Term	17.00	ACUITE BBB- Stable (Reaffirmed)
	Bank Guarantee	Short Term	35.75	ACUITE A3 (Reaffirmed)
	Working Capital Demand Loan	Long Term	4.84	ACUITE BBB- Stable (Reaffirmed)
	Proposed Bank Facility	Short Term	1.00	ACUITE A3 (Assigned)
	Cash Credit	Long Term	10.00	ACUITE BBB- Stable (Reaffirmed)
	Letter of Credit	Short Term	15.00	ACUITE A3 (Reaffirmed)
12 Mar 2021	Working Capital Demand Loan	Long Term	1.94	ACUITE BBB- Stable (Reaffirmed)
	Working Capital Demand Loan	Long Term	1.94	ACUITE BBB- Stable (Assigned)
	Bank Guarantee	Short Term	35.75	ACUITE A3 (Reaffirmed)
	Cash Credit	Long Term	10.00	ACUITE BBB- Stable (Reaffirmed)
	Working Capital Demand Loan	Long Term	4.84	ACUITE BBB- Stable (Assigned)
	Bank Guarantee	Short Term	38.00	ACUITE A3 (Reaffirmed)
	Cash Credit	Long Term	17.00	ACUITE BBB- Stable (Reaffirmed)
	Bank Guarantee	Short Term	22.00	ACUITE A3 (Assigned)

	Letter of Credit	Short Term	15.00	ACUITE A3 (Reaffirmed)
	Cash Credit	Long Term	10.00	ACUITE BBB- Stable (Assigned)
	Working Capital Demand Loan	Long Term	2.97	ACUITE BBB- Stable (Assigned)
03 Mar 2021	Cash Credit	Long Term	1.78	ACUITE BBB- Stable (Upgraded from ACUITE BB+ Stable)
	Bank Guarantee	Short Term	41.75	ACUITE A3 (Upgraded from ACUITE A4+)
	Cash Credit	Long Term	17.00	ACUITE BBB- Stable (Upgraded from ACUITE BB+ Stable)
	Bank Guarantee	Short Term	21.85	ACUITE A3 (Upgraded from ACUITE A4+)
	Letter of Credit	Short Term	7.62	ACUITE A3 (Upgraded from ACUITE A4+)
		Long		
13 May 2020	Cash Credit	Term	18.78	ACUITE BB+ Stable (Assigned)
	Bank Guarantee	Short Term	48.60	ACUITE A4+ (Assigned)
	Letter of Credit	Short Term	7.62	ACUITE A4+ (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	38.00	ACUITE A4+ Downgraded
Canara Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	17.25	ACUITE A4+ Downgraded
Karnataka Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	22.00	ACUITE A4+ Downgraded
Axis Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	11.50	ACUITE A4+ Downgraded
Axis Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE BB+ Negative Downgraded Stable to Negative
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE BB+ Negative Downgraded Stable to Negative
Canara Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE BB+ Negative Downgraded Stable to Negative
Karnataka Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE BB+ Negative Downgraded Stable to Negative
State Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	15.00	ACUITE A4+ Downgraded
Axis Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	7.00	ACUITE A4+ Downgraded
Not Applicable	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	7.42	ACUITE A4+ Downgraded
State Bank of India	Not Applicable	Working Capital Demand Loan (WC DL)	Not available	Not available	Not available	Simple	1.83	ACUITE BB+ Negative Downgraded Stable to Negative
Canara Bank	Not Applicable	Working Capital Demand Loan (WC DL)	Not available	Not available	Not available	Simple	2.37	ACUITE BB+ Negative Downgraded Stable to Negative

Axis Bank	Not Applicable	Working Capital Demand Loan (WC DL)	Not available	Not available	Not available	Simple	1.13	ACUITE BB+ Negative Downgraded Stable to Negative
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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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