

**Press Release**  
**SIDDHARTHA ENGINEERING LIMITED**  
**July 06, 2023**



**Rating Assigned and Reaffirmed**

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	40.33	ACUITE BB+   Stable   Reaffirmed   Negative to Stable	-
Bank Loan Ratings	5.00	-	ACUITE A4+   Assigned
Bank Loan Ratings	118.17	-	ACUITE A4+   Reaffirmed
<b>Total Outstanding Quantum (Rs. Cr)</b>	<b>163.50</b>	-	-

**Rating Rationale**

Acuite has reaffirmed its long term rating of 'ACUITE BB+' (read as ACUITE double B plus) and the short term rating of 'ACUITE A4+' (read as ACUITE A four plus) on the Rs.158.50 Cr bank facilities of Siddhartha Engineering Limited (SEL). The outlook is revised from 'Negative' to 'Stable'.

Further, Acuite has assigned the short-term rating of 'ACUITE A4+' (read as ACUITE A four plus) to the Rs.5.00 Cr bank facilities of Siddhartha Engineering Limited (SEL).

**Rationale for rating reaffirmation and revision in outlook**

The revision in outlook is majorly on account of improvement in scale in operations and improvement in liquidity position of the company owing to improving profitability and better realisation of receivables. The company has achieved revenues of Rs. 124.26 Cr in FY2023 (Provisional) as compared to revenues of Rs. 94.65 Cr in FY2022 resulting in a YoY growth of ~30 percent. The improvement in revenue is majorly on account of timely execution of orders and healthy order book position. The company has an unexecuted order book position of about Rs.363.33 Cr. as on 31st May, 2023 which will be executed shortly in 15-18 months providing healthy revenue visibility over near to medium term. The rating also factors in the improvement in receivable days from 314 days in FY22 to 241 days in FY23, mainly due to better and improved realisation of bills.

The company's liquidity position remains sufficient, with adequate net cash accruals to meet matured debt obligations. The rating also draws comfort from above average financial risk profile of the company. Furthermore, Acuite acknowledges the promoters' infusion of Rs. 7.84 crore during FY23 to strengthen working capital in light of the current order book.

Nevertheless, these strengths are partially offset by the working capital intensive nature of operations with high receivable days despite witnessing improvement and the competitive pressures prevalent in the construction industry.

**About the Company**

Siddhartha Engineering Limited an Orissa based company was incorporated in 1972 as 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 designs, supplies, erects, commissions and tests electrical substations for various government organizations. Currently the company promoted by the director 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.

### Analytical Approach

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

### Key Rating Drivers

#### Strengths

- **Healthy business operations with improving profitability and experienced management**

SEL, an Orissa-based company, was established as a partnership firm in 1972 and underwent a constitution change in 2008. Since its inception, SEL has been actively involved in the design, supply, erection, commissioning, and testing of electrical substations for various government organizations. Mr. Sudhansu Sekhar Palo, the company's promoter, possesses over four decades of experience in the transmission tower and electrical substation business. Additionally, Mr. Sidhartha Palo and Mrs. Madhuri Palo, the other directors, have more than two decades of experience in this industry. The extensive expertise of the management team, coupled with a proven operational track record, has enabled SEL to cultivate strong relationships with esteemed clients such as Power Grid Corporation of India and OPTCL. Over the years, the company has established a reputable presence and fostered enduring customer relationships.

In FY2023 (Provisional), SEL achieved revenues of Rs. 124.26 Cr, a significant increase compared to Rs. 94.65 Cr in FY2022. The company's turnover has consistently grown year-on-year by more than 30.53 percent, driven by increased work order execution during the period. As of May 31, 2023, SEL maintains a healthy unexecuted order book worth approximately Rs. 363.33 Cr., which will be fulfilled within the next 15-18 months.

Furthermore, SEL witnessed an improvement in its operating profitability margin, reaching 15.65 percent in FY2023 (Provisional) compared to 14.16 percent in FY2022. This increase in profitability is attributed to heightened sales realizations during the period. Acuite anticipates the company's profitability margin to sustain at a healthy level over the medium term, thanks to SEL's focus on the bottom line and strategic bidding on projects. The net profitability margin of the company remained strong at 6.65 percent in FY2023 (Provisional), up from 5.02 percent in FY2022.

Acuité believes that the business risk profile of the company will continue to remain healthy on account of healthy unexecuted order book position from reputed clientele over the medium term.

- **Above average financial risk profile**

The financial risk profile of the company remains above average marked by moderate but improving networth, low gearing and comfortable debt protection metrics. The tangible net worth of the company increased to Rs.72.22 Cr as on March 31, 2023(Provisional) from Rs.56.12 Cr as on March 31, 2022 due to accretion to reserves. Acuité has also considered unsecured loan of Rs.7.84 Cr. from the promoters as on March 31,2023 (Provisional) as quasi equity, as the same amount is subordinated with bank debt. The gearing of the company stood comfortable at 0.65 times as on March 31, 2023(Provisional) as against 0.76times as on March 31, 2022. The Total Outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.06 times as on March 31, 2023(Provisional). The interest coverage ratio of the company stood at 2.52 times as on March 31, 2023(Provisional) and Debt Service Coverage Ratio stood at 1.56 times as on March 31, 2023(Provisional). Net Cash Accruals/Total Debt (NCA/TD) stood low at 0.19 times as on March 31, 2023(Provisional).

Going forward, Acuité believes that going forward the financial risk profile will remain

comfortable over the medium term, in absence of any major debt funded capex plans.

## Weaknesses

- **Working capital intensive nature of operations**

The operations of the company are working capital intensive nature of operations marked by high Gross Current Assets (GCA) of 327 days as on March 31, 2023(Provisional) as compared to 414 days as on March 31, 2022. The high GCA days are high primarily on account of a high debtors days for 241 as on March 31,2023(Provisional) as compared to 314 as on March 31,2022. Despite witnessing improvement in realisation of receivables, the debtor days of the company remained high. Furthermore, the inventory holding period stood at 70 as on March 31,2023(Provisional) as compared to 107 as on March 31,2022. The working capital intensive nature of operations has led the company to highly rely working capital funding through bank lines and the average utilisation of the same stood high at 86 percent in last five months ended May 2023.

Acuité believes that the working capital operations of the company will remain at the similar levels on account of high receivable position due to nature of operations over the medium term. However, any further improvement in realisation of receivables will continue to remain a key rating sensitivity going ahead.

- **Competitive and fragmented industry**

SEL is engaged as an EPC contractor. This particular sector is marked by the presence of several mid to large sized players. The company faces intense pricing competition from the other players in the sectors. The risk becomes more pronounced as tendering is based on minimum amount of bidding on contracts and susceptibility to inherent cyclicity in the sector. Acuité believes that SEL is well positioned on account of its longstanding relationship with well-established international players in the industry and the long track- record of its promoters spanning nearing six decades. Further, SEL is also exposed to regulatory risks, which can affect its ability to complete projects in a timely manner and to secure new projects from time to time.

## Rating Sensitivities

- Ramp up of operations while maintaining their profitability margin
- Timely execution of projects without any delay
- Any further elongation in receivable position of the company

## Material covenants

None

## Liquidity Position

### Adequate

The company has adequate liquidity marked by adequate net cash accruals of Rs.9.13 crore as against Rs.2.96 crore long term debt obligations over the same period in FY2023(Provisional). The current ratio of the company stood comfortable at 2.03 times in FY2023(Provisional). However, the bank limit of the company has been ~86 percent utilized during the last five months ended in May 2023. Further, the working capital intensive nature of operations is marked by high GCA days of 327 days as on March 31, 2023(Provisional) as compared to 414 days as on March 31, 2022. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of moderate cash accruals against the long debt repayments over the medium term.

## Outlook: Stable

Acuité has revised the outlook on SEL to stable on account of a significant improvement in the receivables position of the company thus providing comfort to the liquidity position. Also, the revenue from operations of the company witnessed improvement on account of timely

execution of orders. 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.

#### **Other Factors affecting Rating**

Not Applicable

## Key Financials

Particulars	Unit	FY 23 (Provisional)	FY 22 (Actual)
Operating Income	Rs. Cr.	124.26	94.65
PAT	Rs. Cr.	8.26	4.75
PAT Margin	(%)	6.65	5.02
Total Debt/Tangible Net Worth	Times	0.65	0.76
PBDIT/Interest	Times	2.52	2.05

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

Care vide its press release dated 24.11.2022, had rated the company to CARE BB-/Stable/A4; Issuer Not Cooperating.

### Any other information

Not Applicable

### 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, Acuité 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](http://www.acuite.in).

## Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
31 Jan 2023	Bank Guarantee	Short Term	11.50	ACUITE A4+ (Downgraded from ACUITE A3)
	Cash Credit	Long Term	10.00	ACUITE BB+   Negative (Downgraded from ACUITE BBB-   Stable)
	Letter of Credit	Short Term	7.00	ACUITE A4+ (Downgraded from ACUITE A3)
	Cash Credit	Long Term	5.00	ACUITE BB+   Negative (Downgraded from ACUITE BBB-   Stable)
	Bank Guarantee	Short Term	38.00	ACUITE A4+ (Downgraded from ACUITE A3)
	Bank Guarantee	Short Term	22.00	ACUITE A4+ (Downgraded from ACUITE A3)
	Working Capital Demand Loan	Long Term	1.83	ACUITE BB+   Negative (Downgraded from ACUITE BBB-   Stable)
	Bank Guarantee	Short Term	17.25	ACUITE A4+ (Downgraded from ACUITE A3)
	Letter of Credit	Short Term	15.00	ACUITE A4+ (Downgraded from ACUITE A3)
	Proposed Bank Facility	Short Term	7.42	ACUITE A4+ (Downgraded from ACUITE A3)
	Cash Credit	Long Term	10.00	ACUITE BB+   Negative (Downgraded from ACUITE BBB-   Stable)
	Working Capital Demand Loan	Long Term	1.13	ACUITE BB+   Negative (Downgraded from ACUITE BBB-   Stable)
	Working Capital Demand Loan	Long Term	2.37	ACUITE BB+   Negative (Downgraded from ACUITE BBB-   Stable)
	Cash Credit	Long Term	10.00	ACUITE BB+   Negative (Downgraded from ACUITE BBB-   Stable)
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)
	Working Capital Demand Loan	Long Term	1.94	ACUITE BBB-   Stable (Reaffirmed)
	Working Capital Demand Loan	Long Term	1.94	ACUITE BBB-   Stable (Assigned)
		Short		

12 Mar 2021	Bank Guarantee	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+)
13 May 2020	Cash Credit	Long 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+   Reaffirmed
Canara Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	17.25	ACUITE A4+   Reaffirmed
Karnataka Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	22.00	ACUITE A4+   Reaffirmed
Axis Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	11.50	ACUITE A4+   Reaffirmed
Axis Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE BB+   Stable   Reaffirmed   Negative to Stable
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE BB+   Stable   Reaffirmed   Negative to Stable
Canara Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE BB+   Stable   Reaffirmed   Negative to Stable
Karnataka Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE BB+   Stable   Reaffirmed   Negative to Stable
State Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	15.00	ACUITE A4+   Reaffirmed
Axis Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	7.00	ACUITE A4+   Reaffirmed
Not Applicable	Not Applicable	Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE A4+   Assigned
Not Applicable	Not Applicable	Proposed Short Term Bank	Not Applicable	Not Applicable	Not Applicable	Simple	7.42	ACUITE A4+



		Facility						Reaffirmed
State Bank of India	Not Applicable	Working Capital Demand Loan (WC DL)	Not available	Not available	Not available	Simple	1.83	ACUITE BB+   Stable   Reaffirmed   Negative to Stable
Canara Bank	Not Applicable	Working Capital Demand Loan (WC DL)	Not available	Not available	Not available	Simple	2.37	ACUITE BB+   Stable   Reaffirmed   Negative to Stable
Axis Bank	Not Applicable	Working Capital Demand Loan (WC DL)	Not available	Not available	Not available	Simple	1.13	ACUITE BB+   Stable   Reaffirmed   Negative to Stable

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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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