

Press Release

Shree Balaji Engicons Limited (SBEL)

September 09, 2021

Rating Reaffirmed & Assigned



Total Bank Facilities Rated*	Rs. 300.00 Cr.
Long Term Rating	ACUITE A/Stable (Reaffirmed & Assigned)
Short Term Rating	ACUITE A1 (Reaffirmed & Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed and assigned the long term rating of '**ACUITE A**' (read as **ACUITE A**) and the short term rating of '**ACUITE A1**' (read as **ACUITE A one**) to the Rs.300.00 Cr of bank facilities of Shri Balaji Engicons Limited. The outlook is '**Stable**'.

The rating continues to reflect the extensive experience of the management and established track record of operation in the construction business. The rating also takes into account the improving scale of operation and healthy profitability margin of the company. However, these strengths are partially offset by the working capital intensive nature of operation and moderate geographical concentration in its clientele.

About the company

Incorporated in 1998, Shree Balaji Engicons Limited (SBEL) is an Odisha based company engaged in civil construction work for roads, highways, bridges, building and railway infrastructure projects for government entities in Odisha, Jharkhand and Chhattisgarh. The company is a Class I civil contractor with Public Works Department (PWD), Odisha. The company also operates a petrol pump in Odisha. Currently the company is promoted by Mr. Anil Kumar Agrawal and Mr. Pradip Kumar Agrawal.

Analytical Approach:

Acuite has considered standalone business and financial risk profile of SBEL while arriving at the rating.

Key Rating Drivers:

Strengths

Experienced management and long track record of operation

The promoters of the company, Mr. Anil Kumar Agrawal, Mr. Pradip Kumar Agrawal and Mr Sushil Kumar Agrawal have been in the civil construction industry for over three decades. The long standing experience of the promoters has been through their erstwhile proprietorship firm established in 1985. Presently, the second generation, Mr Vinay Agrawal (BE Civil), Mr Ankit Agrawal and Mr. Rishab Agarwal have also entered the business and are actively involved in the day to day operations of the company. Acuite believes its long established market presence and vast experience of the promoters in the civil construction industry will help to secure fresh orders going forward.

Healthy scale of operation coupled with improving profit margins

The revenue of the company stood healthy at Rs.446.93 Cr in FY2021 (Prov.) as compared to Rs.312.39 Cr in the previous year thereby registering a year on year growth of 43.07 percent. The company has earned Rs.199.99 Cr till 31st July 2021 (Provisional). The company has a strong unexecuted order book of Rs.1133.22 Cr as on May 2021, imparting revenue visibility over the medium term.

The company has consistently reported healthy profitability margins with operating margins at 12.39 per cent in FY2021 (Prov.) as compared to 14.72 per cent in the previous year. However, the moderate decline last year is due to increase in labor cost during the year. The net profitability margin of the company also stood healthy at 4.04 per cent in FY2021 (Prov.) as compared to 5.03 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 their focus on healthy margins and bid in projects accordingly.

Healthy financial risk profile

The financial risk profile of the company is marked by high net worth, comfortable gearing and healthy debt protection metrics. The net worth of the company stood at Rs.185.89 Cr in FY 2021 (Prov.) as compared to Rs 167.66 Cr in FY2020. The gearing of the company stood comfortable at 0.61 times as on March 31, 2021 (Prov.) when compared to 0.66 times as on March 31, 2020. Interest coverage ratio (ICR) is healthy and stood at 3.90 times in FY2021 (Prov.) as against 3.92 times in FY 2020. The debt service coverage ratio (DSCR) of the company also stood comfortable at 2.00 times in FY2021 (Prov.) as compared to 1.89 times in the previous year. The net cash accruals to total debt (NCA/TD) stood healthy at 0.33 times in FY2021 (Prov.) as compared to 0.29 times in the previous year. Going forward, Acuite believes the financial risk profile of the company will remain comfortable on account of steady net cash accruals and no major debt funded capex plan over the near to medium term.

Weaknesses

Working capital intensive nature of operation

The working capital intensive nature of operation is marked by high gross current asset (GCA) days of 246 days in FY2021 (Prov.) as compared to 297 days in the previous year. The inventory days of the company stood high at 138 days in FY2021 (Prov.) as compared to 181 days in the previous year. The debtor days of the company stood moderate at 86 days in FY2021 (Prov.) and in FY2020 respectively. Further, this high GCA days also emanate from high other current asset days of Rs.40.27 Cr in FY2021 (Prov.) TDS receivables, royalty receivables and material & service advance among others. The working capital limit has been utilized ~84 per cent for the last six months ended July 2021. Acuite believes any further elongation in working capital would be a key rating sensitivity factor.

Moderate geographic concentration

The company has moderate geographical diversity with projects being executed mainly in Odisha part from Chhattisgarh and Jharkhand. Around 65 per cent of total orders are from Odisha, 15 per cent of total orders are from Jharkhand and remaining from Chhattisgarh. Going forward, the ability of the company to diversify its revenue streams further from various geographies over the long term would remain a key sensitivity.

Rating Sensitivity

- Scaling up of operations while maintaining their profitability margin
- Timely execution of orders
- Sustenance of existing financial risk profile with healthy capital structure

Material Covenant

None

Liquidity Position: Adequate

The company has adequate liquidity marked by healthy net cash accruals of Rs.37.66 Cr as against Rs.11.27 long term debt obligation during FY2021 (Prov.). The cash accruals of the company are estimated to remain in the range of around Rs. 45.43 Cr to Rs. 56.59 Cr during 2022-24 as against Rs.15.40 Cr in FY2023 and in FY2024 of long term debt obligations. The current ratio of the company stood comfortable at 1.43 times in FY2021. The working capital management of the company, however, is marked by high Gross Current Asset (GCA) days of 246 days in FY2021 (Prov.). The bank limit of the company has been ~84 per cent utilized during the last seven months ended in July 2021. Moreover, the company has availed the covid emergency loan of Rs. 5.05 Cr which has to be repaid over a period of 4 years including 1 year of moratorium. The company has not availed the loan moratorium till August 2020. Acuite believes that the liquidity of the company is likely to remain adequate over the medium term in the absence of any significant debt funded capex and consistent accruals.

Outlook: Stable

Acuite believes the company's outlook will remain stable over the medium term on account of vast experience of the promoters, long execution track record, healthy order book position and healthy financial risk profile. The outlook may be revised to 'Positive' in case the company registers healthy growth in revenues while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in the company's revenues or profit margins, or in case of deterioration in the company's financial risk profile and liquidity position or delay in completion of its projects or further deterioration in its working capital cycle.

About the Rated Entity - Key Financials (Standalone)

	Unit	FY21 (Prov.)	FY20 (Actual)
Operating Income	Rs. Cr.	446.93	312.39
PAT	Rs. Cr.	18.04	15.71
PAT Margin	(%)	4.04	5.03
Total Debt/Tangible Net Worth	Times	0.61	0.66
PBDIT/Interest	Times	3.90	3.92

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>
- Infrastructure Entities – <https://www.acuite.in/view-rating-criteria-51.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
16-Jun-2020	Cash Credit	Long Term	57.00	ACUITE A/Stable (Assigned)
	Bank Guarantee	Short Term	192.00	ACUITE A1 (Assigned)
	Proposed Cash Credit	Long Term	20.00	ACUITE A/Stable (Assigned)
	Proposed Bank Guarantee	Short Term	31.00	ACUITE A1 (Assigned)
05-Feb-2020	Cash Credit	Long Term	45.75	ACUITE BB+ (Withdrawn)
	Standby Line of Credit	Short Term	2.00	ACUITE A4+ (Withdrawn)
	Bank Guarantee	Short Term	125.00	ACUITE A4+ (Withdrawn)
	Proposed Cash Credit	Long Term	15.00	ACUITE BB+ (Withdrawn)
	Proposed Bank Guarantee	Short Term	62.25	ACUITE A4+ (Withdrawn)
17-Dec-2019	Cash Credit	Long Term	45.75	ACUITE BB+ (Indicative)
	Standby Line of Credit	Short Term	2.00	ACUITE A4+ (Indicative)
	Bank Guarantee	Short Term	125.00	ACUITE A4+ (Indicative)
	Proposed Cash Credit	Long Term	15.00	ACUITE BB+ (Indicative)
	Proposed Bank Guarantee	Short Term	62.25	ACUITE A4+ (Indicative)

27-Jun-2019	Cash Credit	Long Term	45.75	ACUITE BBB+ (Indicative)
	Standby Line of Credit	Short Term	2.00	ACUITE A2 (Indicative)
	Bank Guarantee	Short Term	125.00	ACUITE A2 (Indicative)
	Proposed Cash Credit	Long Term	15.00	ACUITE BBB+ (Indicative)
	Proposed Bank Guarantee	Short Term	62.25	ACUITE A2 (Indicative)

***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	32.00	ACUITE A/Stable (Reaffirmed)
Punjab National Bank	Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A/Stable (Reaffirmed)
HDFC Bank	Cash Credit	Not Applicable	Not Applicable	Not Applicable	9.00	ACUITE A/Stable (Reaffirmed)
Yes Bank	Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A/Stable (Reaffirmed)
Axis Bank	Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A/Stable (Assigned)
Union Bank of India	Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A/Stable (Assigned)
State Bank of India	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	110.00	ACUITE A1 (Reaffirmed)
Punjab National Bank	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE A1 (Reaffirmed)
HDFC Bank	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE A1 (Reaffirmed)
Yes Bank	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE A1 (Reaffirmed)

Axis Bank	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A1 (Assigned)
Union Bank of India	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	31.00	ACUITE A1 (Assigned)

Contacts:

Analytical	Rating Desk
<p>Pooja Ghosh Head- Corporate and Infrastructure Sector Ratings Tel: 033-66201203 pooja.ghosh@acuite.in</p> <p>Abhishek Dey Rating Analyst Tel: 033-66201208 abhishek.dey@acuite.in</p>	<p>Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in</p>

About Acuité Ratings & Research:

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