

Press Release

Shree Balaji Engicons Limited

November 24, 2022



Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	113.00	ACUITE A Stable Reaffirmed	-
Bank Loan Ratings	223.00	-	ACUITE A1 Reaffirmed
Total Outstanding Quantum (Rs. Cr)	336.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed the long term rating of '**ACUITE A**' (read as **ACUITE A**) and reaffirmed the short term rating of '**ACUITE A1**' (read as **ACUITE A one**) to the Rs.336.00 Cr bank facilities of Shree Balaji Engicons Limited. (SBEL) The outlook is '**Stable**'.

Rationale for the rating

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

Key Rating Drivers

Strengths

Experienced management and healthy order book

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.

SBEL's order book stands at Rs 1,696.22 crore (Including L1 order of Rs 513.29 crores), with major contributions from irrigation (31.3%), roads (21.6%), bridges (19%), buildings (12%), railway (6.2%), and riverfront project (7.9%). The order book remains sufficient for the next 12-15 months. Acuite believes the scale of operation will improve over the medium term backed by healthy order book size.

Healthy scale of operation coupled with steady profitability margin

The revenue of the company stood healthy at Rs.637.44 crore in FY2022 as compared to Rs.447.10 crore in the previous year driven by pick-up in execution. In FY22, all orders were completed by the company within the predetermined time frames; in certain cases, orders were even executed earlier than anticipated. The current order book provides revenue visibility over the next few years. Acuite believes the ability of the company to scale up the operations will remain a key monitorable.

The operating profitability margin of the company moderated to 8.84 per cent in FY2022 as compared to 11.53 per cent in the previous year due to change in project mix and increase in input prices such as diesel, steel, and cement. The company has a price escalation clause, but it generally follows with a lag. Going forward, the company will focus on margin accretive projects, which will improve its margin.

The PAT margins stood at 3.08 per cent in FY2022 as against 4.13 per cent as on FY2022. The RoCE levels stood at a comfortable level of about 14.46 per cent in FY2022 as against 13.43 per cent in FY2021. 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.

Comfortable financial profile

The financial risk profile of the company is marked by high net worth, low gearing and healthy debt protection metrics. The net worth of the company stood at Rs.205.78 crore in FY 2022 as compared to Rs 186.11 crore in FY2021. The gearing of the company has stood comfortable at 0.47 times in FY 2022 when compared to 0.61 times in FY 2021. Interest coverage ratio (ICR) is healthy and stood at 3.57 times in FY2022 as against 3.73 times in FY 2021. The debt service coverage ratio (DSCR) of the company stood at 1.73 times in FY2022 as compared to 1.96 times in the previous year. The net cash accruals to total debt (NCA/TD) stood steady at 0.37 times in FY2022 as compared to 0.32 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 requirement is inherently high in the construction industry, given the dependence on the state and central government authorities for timely receipt of payments. The operation of the company is working capital intensive marked by high gross current asset days of 183 days in FY2022 as compared to 230 days in the previous year. Moreover, the inventory days of the company has decreased to 90 days in FY2022 as compared to 138 days in the previous year. The debtor days of the company stood moderate at 70 days in FY2022 as compared to 77 days in the previous year. Going forward, Acuite believes that the sustenance of working capital cycle will remain a key rating sensitivity factor.

Moderate geographic concentration

The current order book shows moderate geographical diversification as orders were received by SBEL from different geographies, with Odisha having a 44% exposure and Chhattisgarh and Jharkhand contributing 15% and 22% of the total order, respectively. 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 Sensitivities

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

Material covenants

None

Liquidity Position

Adequate

The company has adequate liquidity marked by comfortable net cash accruals of Rs.35.84 crore as against Rs.13.73 crore long term debt obligations in FY2022. The cash accruals of the company are estimated to remain in the range of around Rs. 49.73 crore to Rs. 55.46 crore during 2023-24 as against Rs. 14.47 crore of long term debt obligations FY2023 and Rs. 10.47 crore in FY2024 respectively. The bank limit of the company has been ~75 percent utilized during the last seven months ended in October 2022. In addition, the company had witnessed an improvement in GCA days as it stood at 183 days in FY2022 as against 230 days in FY2021. The current ratio of the company stood at 1.91 times in FY2022. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of comfortable cash accruals against long debt repayments over the medium term.

Outlook: Stable

Acuité 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.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	637.44	447.10
PAT	Rs. Cr.	19.64	18.45
PAT Margin	(%)	3.08	4.13
Total Debt/Tangible Net Worth	Times	0.47	0.61
PBDIT/Interest	Times	3.57	3.73

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 Sector: <https://www.acuite.in/view-rating-criteria-51.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.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. -or more details. please refer Rating Criteria "Complexity Level Of Financial Instruments" on Acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
27 Sep 2021	Bank Guarantee	Short Term	12.00	ACUITE A1 (Reaffirmed)
	Bank Guarantee	Short Term	110.00	ACUITE A1 (Reaffirmed)
	Bank Guarantee	Short Term	30.00	ACUITE A1 (Reaffirmed)
	Cash Credit	Long Term	5.00	ACUITE A Stable (Reaffirmed)
	Cash Credit	Long Term	1.00	ACUITE A Stable (Reaffirmed)
	Cash Credit	Long Term	20.00	ACUITE A Stable (Reaffirmed)
	Cash Credit	Long Term	10.00	ACUITE A Stable (Reaffirmed)
	Cash Credit	Long Term	9.00	ACUITE A Stable (Reaffirmed)
	Cash Credit	Long Term	32.75	ACUITE A Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	35.25	ACUITE A Stable (Assigned)
	Bank Guarantee	Short Term	25.00	ACUITE A1 (Reaffirmed)
	Bank Guarantee	Short Term	31.00	ACUITE A1 (Reaffirmed)
	Bank Guarantee	Short Term	15.00	ACUITE A1 (Reaffirmed)
	09 Sep 2021	Cash Credit	Long Term	1.00
Cash Credit		Long Term	5.00	ACUITE A Stable (Reaffirmed)
Bank Guarantee		Short Term	31.00	ACUITE A1 (Assigned)
Cash Credit		Long Term	10.00	ACUITE A Stable (Assigned)
Bank Guarantee		Short Term	15.00	ACUITE A1 (Assigned)
Cash Credit		Long Term	9.00	ACUITE A Stable (Reaffirmed)
Cash Credit		Long Term	32.00	ACUITE A Stable (Reaffirmed)
Bank Guarantee		Short Term	110.00	ACUITE A1 (Reaffirmed)
Bank Guarantee		Short Term	25.00	ACUITE A1 (Reaffirmed)

	Cash Credit	Long Term	20.00	ACUITE A Stable (Assigned)
	Bank Guarantee	Short Term	30.00	ACUITE A1 (Reaffirmed)
	Bank Guarantee	Short Term	12.00	ACUITE A1 (Reaffirmed)
	Bank Guarantee	Short Term	192.00	ACUITE A1 (Assigned)
		Long Term		ACUITE A Stable (Assigned)
16 Jun 2020	Cash Credit	Term	57.00	(Assigned)
	Proposed Bank Guarantee	Short Term	31.00	ACUITE A1 (Assigned)
	Proposed Cash Credit	Long Term	20.00	ACUITE A Stable (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	110.00	ACUITE A1 Reaffirmed
Punjab National Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	12.00	ACUITE A1 Reaffirmed
HDFC Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	30.00	ACUITE A1 Reaffirmed
Yes Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	25.00	ACUITE A1 Reaffirmed
Axis Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	15.00	ACUITE A1 Reaffirmed
Union Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	31.00	ACUITE A1 Reaffirmed
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	32.75	ACUITE A Stable Reaffirmed
Punjab National Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	1.00	ACUITE A Stable Reaffirmed
Axis Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE A Stable Reaffirmed
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	9.00	ACUITE A Stable Reaffirmed
Yes Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE A Stable Reaffirmed
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	20.00	ACUITE A Stable Reaffirmed
Union Bank of India	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	Simple	6.00	ACUITE A Stable Reaffirmed
State Bank of India	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	Simple	8.07	ACUITE A Stable Reaffirmed
Yes Bank Ltd	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	Simple	0.79	ACUITE A Stable Reaffirmed
HDFC Bank Ltd	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	Simple	4.25	ACUITE A Stable Reaffirmed
Axis Bank	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	Simple	6.50	ACUITE A Stable Reaffirmed

Not Applicable	Not Applicable	Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	Simple	9.64	ACUITE A Stable Reaffirmed
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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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