



Press Release
SATTVA ENGINEERING CONSTRUCTION PRIVATE LIMITED
January 13, 2025
Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	24.50	ACUITE BBB- Stable Assigned	-
Bank Loan Ratings	44.50	-	ACUITE A3 Assigned
Total Outstanding Quantum (Rs. Cr)	69.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has assigned its long term rating of 'ACUITE BBB-' (read as ACUITE triple B minus) and short term rating of 'ACUITE A3' (read as ACUITE A three) to the Rs.69 Cr. bank facilities of Sattva Engineering Construction Private Limited (SECPL). The Outlook is 'Stable'.

Rationale for rating assigned

The rating assigned reflects the promoters' extensive experience of over three decades in the civil contracting industry since 1989, along with the company's expertise in executing PWD contracts. It also takes into account the increased focus of the Tamil Nadu government on improving sewerage infrastructure in Chennai and across the state. Additionally, the rating considers the significant improvement in operating margins (EBITDA) during FY24 to 16.43 percent from 9.07 percent in previous year, despite a decline in revenue, as well as a robust order book of Rs. 299.30 crore as of October 2024, which is nearly 3.89 times the revenue of FY24, indicating strong revenue visibility in the medium term. Furthermore, the rating incorporates the recent pre-IPO fundraising of Rs. 11.45 crore and the proposed IPO in Q1 FY26 for around Rs. 40 crore. This capital infusion is expected to ease working capital operations and increase the bank guarantee limit, which will support bidding for new orders and further augment its scale of operations. However, the rating is constrained by the company's moderate financial risk profile, the working capital-intensive nature of its operations, and the sensitivity of profitability to fluctuations in raw material prices and the tender-based nature of its business.

About the Company

Chennai based, Sattva Engineering Construction Private Limited was incorporated in the year 2005. Mr. Santhanam Seshadri, Mr. Rajagopal Sekar, Mr. Venkatraman Sankar are directors of the company. It is engaged in the business of construction of Buildings, Warehouses, Power Stations, Water & Sewerage Treatment Plants, and Commercial Buildings. It has executed projects for Tamil Nadu State PWD, CMWSSB, Highways, IIT Chennai and for other public sectors, as class I contractor.

Unsupported Rating

Not applicable

Analytical Approach

Acuite has considered the standalone business and financial risk profile of SECPL for arriving at the rating.

Key Rating Drivers

Strengths

Experienced promoters and established track record of operations

SECPL was incorporated as proprietary firm in 1989 and converted into private limited company in 2005. Company is currently managed by Mr. Santhanam Seshadri and Mr. Rajagopal Sekar. SECPL management has more than three decades of experience in civil construction industry. SECPL is engaged in executing civil contracting works both public and private clientele. Company has expertise in executing works related to public water departments (PWD) in Tamil Nadu and primarily in Chennai city. SECPL's management is supported by a team of professionals with adequate experience in executing civil contract works. The extensive experience of promoters has helped the company establish long-term relationships with its customers and suppliers.

Acuite believes that SECPL will continue to benefit from its experienced promoters and its long track record of operations over the medium term.

Healthy order book position and improved profit margin amid revenue decline

SECPL has healthy order book of Rs.299.30 Cr. as on December'2024, which is nearly 3.89 times of FY24 revenue, indicating adequate revenue visibility in medium term. Order book increased mainly due to new order worth Rs.107.03 Cr. received from Tamil Nadu water supply and drainage board (TNSDB) in November'2024. SECPL has registered the operating revenue of Rs.76.93 Cr. in FY24 as compared to Rs.83.65 Cr. in FY23 and Rs.88.07 Cr. in FY2022. Revenue declined in FY24 due as company was focusing on high margin contracts with higher scope of work in FY24. Despite the decline in revenue company's operating margins improved in FY24 to 16.43 percent as against 9.07 percent in FY23 and 7.47 percent in FY22, which has led to improvement in absolute EBITDA to Rs.12.64 Cr. in FY24 as against Rs.7.59 Cr. in FY23 and Rs.6.58 Cr. in FY22. In current year FY25, company has recorded revenue of Rs.75.17 Cr. till December'2024 and expected to register revenue between Rs.115 Cr. to 120 Cr. in FY2025.

Acuite believes that the scale of operations and profitability of the company may continue to improve going forward, backed by a healthy order book.

Weaknesses

Moderate financial risk profile

SECPL's financial risk profile is moderate, reflecting its moderate capital structure and coverage ratios. The company's net worth stood at Rs. 24.03 crore as of March 31, 2024, compared to Rs. 19.47 crore as of March 31, 2023. The increase in net worth is attributed to the retention of profits in reserves. Additionally, the company raised Rs. 11.45 crore through pre-IPO funding in September 2024 and is expected to raise another Rs. 40 crore through its IPO in Q1FY2026. This capital infusion is anticipated to further strengthen the company's capital structure. Debt protection metric stood moderate with interest coverage ratio at 2.00 times for FY2024 and 1.31 times FY2023 and 1.37 times for FY2022. Debt service coverage ratio (DSCR) stood at 1.35 times for FY24 as compared to 0.99 times for FY23 and 1.28 times for FY2022. The net cash accrual (NCA) to total debt (TD) stood at 0.15 times as on March 31, 2024 and 0.05 times as on March 31, 2023 and 0.05 times as on March 31st 2022. The Total outside liabilities to Tangible net worth stood at 2.63 times for FY2024 as against 3.27 times in FY2023.

Acuite believes that financial risk profile of the company is likely to improve over the medium term backed by additional capital infusion in the form of Initial public offer (IPO).

Working capital intensive nature of operations

The working capital operations of the company are intensive in nature, as reflected by its gross current asset (GCA) days of 371 days in FY2024 as against 307 days in FY23 and 262 days in FY22. GCA days are majorly dominated by debtor days and inventory days. Debtor days stood at 122 days in FY24 as against 120 days in FY23 and 73 days in FY22. The inventory days of the company stood at 143 days in FY24 as against 89 days in FY23 and 107 days in FY22. In order to support the working capital requirement, the company has stretched its creditor days to 186 days in FY24 as against 212 days in FY23 and 151 days in FY22. Further, the average working capital utilization stood high at 89.5 percent in the past 12 months ending October 2024.

Acuite believes that working capital operations of the company may continue to remain intensive over the near to medium term due to the high realization cycle and nature of operations of the company.

Volatility in raw material prices and tender based nature of operations impacting profitability

Most EPC projects undertaken by the company have a gestation period of 12–24 months, and during this time period, profitability remains susceptible to fluctuations in the input prices. SECPL executes majorly from PWD (Public works departments), which are highly competitive with the presence of a large number of small, regional, and large players. EPC projects executed by the company are tender-based, with wins going to the lowest bidder qualifying the terms and conditions stipulated by the respective agencies floating the bids. This puts strain on the profitability of the company where the bidding can get aggressive.

Rating Sensitivities

Positive

- Improvement in scale of operations supported by healthy order accretion
- Improvement in working capital cycle.

Negative

- Failure to execute IPO and raise the projected capital.
- Decline in profitability margins from current level.
- Any geopolitical disturbances impacting the ongoing projects or order book of the company.
- Further elongation in working capital cycle leading to stretch in liquidity.

Liquidity Position: Adequate

SECPL's liquidity is adequate marked by adequate cash accruals to its debt obligations. It reported cash accruals of Rs.4.84 Cr in FY2024 and Rs.1.50 Cr. in FY23 against the repayment obligation Rs.1.91 Cr. in FY24 and Rs.1.59 Cr. in FY23, its accruals are expected in the range of Rs 9.3 Cr. to 12.6 Cr. in FY2025-26 against its repayment obligations Rs.0.5 Cr. to Rs.0.80 Cr. during the same period. The current ratio of the company stands at 1.32 times and cash and bank balances stood at Rs.5.62 Cr. as on March 31, 2024. Company's GCA days are around 371 days leading to high reliance on working capital limits with average bank limit utilization stood of 89.75 percent over the last 12 months ending October 2024. Unencumbered Cash and bank balances stood at Rs.5.62 Cr. as on March 31, 2024.

Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of adequate cash accrual and no major large debt capex plans over the medium term.

Outlook: Stable

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 24 (Actual)	FY 23 (Actual)
Operating Income	Rs. Cr.	76.93	83.65
PAT	Rs. Cr.	4.56	1.04
PAT Margin	(%)	5.93	1.24
Total Debt/Tangible Net Worth	Times	1.34	1.68
PBDIT/Interest	Times	2.00	1.31

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

Brickworks ratings, vide its press release dated March 19th, 2024 had denoted the rating of Sattva Engineering Construction private limited as BWR B-/ Stable/ A4 'Downgraded, Reaffirmed and Issuer not co-operating'

Infomerics ratings, vide its press release dated November 11th, 2024 had denoted the rating of Sattva Engineering Construction private limited as IVR B+/ Stable/ A4 'Reaffirmed and Issuer not co-operating'

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>
- Infrastructure Sector: <https://www.acuite.in/view-rating-criteria-51.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. Acuité'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 :

Not applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Complexity Level	Rating
Union Bank of India	Not avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	25.50	Simple	ACUTE A3 Assigned
HDFC Bank Ltd	Not avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	19.00	Simple	ACUTE A3 Assigned
HDFC Bank Ltd	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	13.00	Simple	ACUTE BBB- Stable Assigned
Union Bank of India	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	9.00	Simple	ACUTE BBB- Stable Assigned
Not Applicable	Not avl. / Not appl.	Proposed Long Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	0.92	Simple	ACUTE BBB- Stable Assigned
HDFC Bank Ltd	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	30 Dec 2026	0.97	Simple	ACUTE BBB- Stable Assigned
Union Bank of India	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	30 Dec 2026	0.61	Simple	ACUTE BBB- Stable Assigned

Contacts

Mohit Jain Senior Vice President-Rating Operations	Contact details exclusively for investors and lenders
Gnanreddy Rakesh Reddy Manager-Rating Operations	Mob: +91 8591310146 Email ID: analyticalsupport@acuite.in

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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