

Infomerics Valuation And Rating Pvt. Ltd.

Press Release

Tuaman Engineering Limited

January 16, 2019

Rating

Instrument / Facility	Amount (Rs. Crore)	Ratings	Rating Action
Long Term Fund Based Facilities- Cash Credit	40.00 (enhanced from 15)	IVR A- /Stable (IVR Single A Minus with Stable Outlook)	Assigned
Short Term Non Fund Based Facilities- Bank Guarantee	140.00 (enhanced from 35)	IVR A2+ (IVR A Two Plus)	Assigned
Total	180.00		

Details of Facilities are in Annexure 1

Detailed Rationale

The aforesaid ratings assigned to the bank facilities of Tuaman Engineering Limited (TEL) derive comfort from its experienced & professional management and qualified managerial & technical team, proven project execution capability, reputed clientele with strong order book reflecting satisfactory medium term revenue visibility. The comfortable capital structure with healthy debt protection metrics and improving overall financial position also support the ratings. However, the ratings are constrained by its modest scale of operation with revenue concentration risk, volatile input prices, highly fragmented & competitive nature of the construction sector with significant price war and moderate working capital intensity. Maintaining profitability and gearing levels in the context of growing operation and optimising working capital usage are the key rating sensitivities.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Experienced & professional management with highly qualified managerial & technical team

Dr. Pinaki Duttagupta (ED) looks after the overall operations of the company. Dr. Duttagupta, a Mechanical Engineer, has more than two decades of experience in the construction sector. He is well supported by a team of highly qualified & experienced

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professionals. The company has acquired strong engineering acumen through its successful operations over the years.

Proven project execution capability

Over the years, the company has successfully completed many projects across the country for various government companies and reputed private companies. In order to manage the projects in a better way and to grow in a balanced manner, the company has a policy to take up short to medium term projects (1-2 years) and handle limited number of projects at a time to ensure timely completion. The repeat orders received from its clientele validate its construction capabilities.

Reputed clientele

Major clientele of the company include Himadri Speciality Chemicals Ltd., besides various central PSUs like GAIL, Bharat Petroleum Corporation Ltd (Kochi Refinery), Indian Oil Corporation Ltd, Rashtriya Ispat Nigam Ltd, Ircon Infrastructure, Burn Standard Co. Ltd.,etc. TEL bids for tenders floated by various government entities across the country.

Strong order book reflecting satisfactory medium term revenue visibility

The company has a strong order book position comprising 25 contracts amounting to about Rs.889 Crores as on January 1, 2019 which is about 5.05 times of its FY18 construction revenue (i.e., Rs.176 crore). The orders are expected to be completed within next one-two years, indicating a satisfactory medium term revenue visibility.

Improvement in overall financial position

TEL has achieved continuous growth, despite slackness in the infrastructure/ construction industry in the recent past. TEL's total income registered a robust CAGR of ~94% during FY16-FY18 with a y-o-y growth of about 112% in FY18, on a low base, mainly driven by increased order inflow and higher execution of orders. TEL also posted a higher EBIDTA margin in FY18vis-à-vis FY17.

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Comfortable capital structure with healthy debt protection metrics

TEL's capital structure was comfortable with nil term debt as on March 31, 2018. Overall gearing improved from 0.45x in FY17 to 0.13x in FY18 mainly due to lower bank borrowings and accretion of profit to reserves. Total debt/GCA also improved from 2.49x in FY17 to 0.45x in FY18 due to higher cash accrual and stable debt levels.

Key Rating Weaknesses

Modest scale of operation

The scale of operation of the company is modest in the construction sector with a total operating income of Rs.203.31 crore in FY18 and a net worth base of Rs.37.89 crore as on March 31 2018 signifying the fact that TEL is a marginal player in the industry. Further, in 6MFY19, the total operating income, though improved to Rs.176.3 crore continued to remain modest.

Concentration risk

Top five customers cater to about 78% of total operating income in FY18, indicating a concentrated customer profile. However, most of its large customers being PSU giants imparts comfort.

Moderate Working Capital intensity

Construction business, by its nature, is working capital intensive. The collection period (including retention money which was not entirely fallen due as on the account closing dates) remained moderate and improved to 64 days in FY18 (93 days in FY17) on account of the company managing its receivables cycle well. Further, the company has a strategy to take up short-medium duration contracts and optimise the execution time to realise the payments faster in order to manage working capital requirements efficiently.

Volatile input prices

Major raw materials used in construction activities are steel and cement which are usually sourced from large players at proximate distances. The input prices are generally volatile and consequently the profitability of the company remains susceptible to fluctuation in input prices. However, presence of escalation clause in most of the contracts provides significant comfort.

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Highly fragmented & competitive nature of the construction sector with significant price war

The domestic infrastructure/construction sector is highly fragmented with presence of many players with varied statures & capabilities. Boom in the infrastructure sector, a few years back, resulted in increase in the number of players. While the competition is perceived to be healthy, significant price cut by few players during the bidding process is a matter of serious concern for the users with respect to quality of output.

Analytical Approach & Applicable Criteria:

Rating Methodology for Infrastructure Companies

Financial Ratios & Interpretation (Non-financial Sector)

About the Company

Headquartered in Kolkata (West Bengal), Tuaman Engineering Limited (TEL) started its operation from 2007 and has been engaged in Engineering, Procurement and Construction (EPC) activities in execution of all kinds of civil, structural & mechanical and instrumentation works (encompassing engineering, fabrication & erection of structures, ducting, piping, etc.) contracts. TEL, a professionally managed company, has expertise in executing projects in sectors like oil & gas, steel, chemicals, railways (including metro railways), power, etc. and executed projects in various states (like West Bengal, Odisha, Tamil Nadu, Kerala, Gujarat & Rajasthan. Telangana, Assam, Uttar Pradesh, etc.) across the country. Currently, the company is governed by a board of directors comprising highly qualified & experienced professionals, headed by Dr. Pinaki Duttagupta (ED), a Mechanical Engineer with more than two decades of experience in the construction sector.

Financials (Standalone):

	(Rs. crore)	
For the year ended* / As On	31-03-2017	31-03-2018
	Audited	Audited
Total Operating Income	95.56	203.31
EBITDA	8.69	19.30
PAT	4.78	10.82
Total Debt	12.34	4.93
Tangible Net worth	27.24	37.89
EBITDA Margin (%)	9.09	9.49
PAT Margin (%)	5.00	5.31
Overall Gearing Ratio (x)	0.45	0.13

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*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA:Not Applicable

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2018-19)					Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Rating	Rating	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17	Date(s) & Rating(s) assigned in 2015-16
1.	Long Term Fund Based Facilities - Cash Credit	Long Term	40	IVR A- / Stable Outlook	IVR A- / Stable Outlook (May 25, 2018)	IVR A- / Stable Outlook (Apr 3, 2018)			
2.	Short Term Non Fund Based Facilities- Bank Guarantee	Short Term	140	IVR A2+	IVR A2+ (May 25, 2018)	IVR A2+ (Apr 3, 2018)			

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Fund Based Facilities - Cash Credit	-	-	-	40	IVR A- /Stable Outlook
Short Term Non Fund Based Facilities- Bank Guarantee	-	-	-	140	IVR A2+