



## Press Release

**Sree Saravana Engineering Bhavani Private Limited**

**Oct 6, 2021**

### **Rating**

<b>Sl. No.</b>	<b>Instrument/Facility</b>	<b>Amount (Rs. Crore)</b>	<b>Ratings</b>	<b>Rating Action</b>
1.	Long Term Bank Facility	5.00	IVR BB+/PositiveOutlook (IVR Double B Plus with Positive Outlook)	Reaffirmed with Revised Outlook
2.	Short Term Bank Facility	35.00	IVR A4+(IVR A Four Plus)	Reaffirmed
	<b>Total</b>	<b>40.00</b>		

**Details of Facilities are in Annexure 1**

### **Detailed Rationale**

The ratings assigned to the bank facilities of Sree Saravana Engineering Bhavani Private Limited (SSEB) continues to derive comfort from its experienced promoters, long track record of operations coupled with sound engineering acumen and proven project execution capability and its reputed clientele. The ratings also positively factor in improvement in operating income in FY21(Prov.) along with its strong order book position reflecting medium-term revenue visibility, healthy profitability, and comfortable capital structure with healthy debt protection metrics. These rating strengths however gets tempered by susceptibility of operating margin to volatile input prices, inherent risk as an EPC contractor and highly fragmented & competitive nature of the construction sector with significant price war due to tender driven nature of business

### **Key Rating Sensitivities:**

#### **Upward Factor:**

- Growth in scale of operations with further improvement in profitability margins, and cash on a sustained basis.
- Improvements in the order book position of the firm.
- Sustenance of the capital structure with improvement in debt protection metrics.



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### **Downward factor:**

- Substantial deterioration in operating income and/or profitability of the firm impacting its debt protection parameters.
- Any deterioration in liquidity profile on a sustained basis.

### **List of Key Rating Drivers with Detailed Description**

#### **Key Rating Strengths**

##### **Experienced promoters**

The promoter, Mr. P. Venkatachalam (Managing Director) is B.A (Doctor in Social Works) by qualification has more than four decades of experience in the construction sector. Mr. P. Venkatachalam looks after overall operations for the company and is well supported by a team of experienced and qualified professionals.

##### **Long track record of operations with sound engineering acumen with proven project execution capability**

Being in operation since 1981, the company has a vast track record of almost four decades. Over the years, the company has acquired strong engineering acumen through its successful operations and completing a large number of small, medium and large-sized projects of Hydro-Power Plants, supply and erection of Dam Gates & Penstocks, Storm water drainage systems, etc. across the states of Tamil Nadu, Kerala and Karnataka ensuring timely completion of all its projects. The repeat orders received from its clientele validate its construction capabilities.

##### **Medium term revenue visibility**

The company has an unexecuted order book of Rs 543.39 crore as on date out of which Rs 123 crore is expected to be realized by the end of current financial year. The outstanding order book position is almost 6.30 times of TOI for FY21(Prov.) indicating revenue visibility over the near to medium term.



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### **Reputed clientele**

SSEB bids for tenders floated by various government departments/entities and caters to private players as well. The Company has delivered projects for reputed names including but not limited to Tamil Nadu Electricity Board (TANGEDCO), Public Works Department (PWD), Storm Water Drainage Department for Corporation, Karnataka Power Corporation Ltd. (KPCL), Kerala State Electricity Board (KSEB), etc. Over the years of its operations, the company has established a strong business relationship with various government departments as well as private clients.

### **Improvement in operating income in FY21(Prov.)**

SSEBPL total operational income declined from Rs.100.58 Crore in FY19 to Rs.41.32 crore in FY20 due to heavy rainfalls leading to floods due to which company couldn't work for 6-7 months. However, the Total operating income increased by ~106% from Rs 41.32 crore in FY20 to Rs 86.19 crore in FY21(Prov.) driven by execution of order and increase in flow of order. With increase in total operating income, absolute EBIDTA and PAT has also improved in FY21(Prov.). Consequently, gross cash accruals have also improved from Rs.3.21 crore in FY20 to Rs.7.66 crore in FY21(Prov.).

### **Healthy profitability**

In FY21, SSEBPL witnessed a healthy improvement in its EBIDTA margin from 10.14% in FY20 to 12.71% in FY21(Prov.) on account of higher margin order executed, consistent cost control and efficiency measures stipulated by the Company. Driven by improvement in EBITDA margin the PAT margin also improved from 6.00% in FY20 to 7.78% in FY21(Prov.).

### **Comfortable capital structure with healthy debt protection metrics**

The overall gearing of the company stood comfortable at 0.17x as on March 31, 2021 (Prov.). The debt protection indicators of the company like interest coverage is considered strong at 22.68x in FY21 (Prov.) (9.66x in FY20). The total debt comprises of Rs 0.18 term debt with repayment of Rs 0.20 crore and working capital limit of Rs 6.18 crore. Total Debt/GCA is below 1 year and stood comfortable at 0.86 in FY21(Prov.) mainly due to insignificant debt and steady increase in GCA. Further, total indebtedness of the company as reflected by TOL/ATNW remained comfortable at 1.22x as on March 31, 2021 (Prov.).



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### **Key Rating Weaknesses**

#### **Susceptibility of profitability to volatile input prices**

Major raw materials used in civil/railway construction activities are steel and cement which are usually sourced from large players at proximate distances. Historically, the cost of these raw materials and steel products have been volatile in nature and hence, profitability margins of the firm are susceptible to fluctuation in raw material prices and/or finished products.

#### **Inherent risk as an EPC contractor**

Economic vulnerability and regulatory risks in developing markets, delay in payments from the Government, project execution risk and fluctuating input costs are the key business risk faced by the company in the sector.

#### **Tender driven nature of business in highly fragmented & competitive construction sector**

Execution risks for newly awarded projects in a timely manner will be key to achieving growth in revenues and profits. Business certainty is dependent on the company's ability to successfully bid for the tenders as entire business is tender based. The domestic infrastructure sector is highly fragmented marked by 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. SSEBPL faces direct competition from various organized and unorganized players in the market.

#### **Analytical Approach:** Standalone

#### **Applicable Criteria:**

Rating Methodology for Infrastructure Companies

Financial Ratios & Interpretation (Non-financial Sector)



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### **Liquidity –Adequate**

The liquidity position of the firm is expected to remain adequate marked by its adequate gross cash accruals in the range of Rs.10-15 crore as against its insignificant debt repayment obligations of Rs 0.18 crore during FY22-24. Moreover, the company has generated a cash accrual of Rs 7.66 crore against the repayment of Rs 0.20 crore in FY21(Prov.). The average working capital utilization of last 12 months stood at ~73% indicating adequate liquidity cushion, however the company utilised almost 90% of its BG limit. Further, the company has no plans for capex or raising long-term debt plan which imparts comfort. The Current Ratio of the entity stood at 1.53x as per FY21 (Prov.) as against 1.46x in FY20.

### **About the Company**

Sree Saravana Engineering Bhavani Pvt. Ltd. (SSEB) is based out of Erode, Tamil Nadu and was established in 1981 as a partnership firm (Sri Saravana Engineering Works) by Mr. P. Venkatachalam and his wife Mrs. V. Poongodi and was later converted into a private limited company in December 2010. The company is engaged in the business of EPC contracting working predominantly in Kerala, Karnataka and Tamil Nadu. Currently, the company provides expertise in construction field such as earth fill, rock fill and concrete Dams and Tunnels, and Engineering Procurement Construction (EPC) which includes Civil, Mechanical and Electrical works, Design, Manufacture, Supply, Erection, Testing and Commissioning of Hydro Mechanical & Electro Mechanical equipment such as Turbine, Generator, Governor, Excitation System, LCU Panel, Indoor Electrical Control Panels, Outdoor Substation and connected Electrical & Mechanical Works for Hydro Power Projects from 1 MW to 250 MW, etc. The processes and procedures carried out comply with the requirements of ISO 9001:2017. Also, the operations of the company are currently being looked after by Mr. P. Venkatachalam and Mrs. V. Poongodi

### **Financials (Standalone):**

For the year ended*/As on	(Rs. crore)	
	31-03-2020	31-03-2021
	<b>Audited</b>	<b>Prov.</b>
Total Operating Income	41.32	86.19



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EBITDA	4.19	10.96
PAT	2.55	6.81
Total Debt	4.16	6.56
Tangible Net worth	30.79	37.59
EBITDA Margin (%)	10.14	12.71
PAT Margin (%)	6.00	7.78
Overall Gearing Ratio (x)	0.14	0.17

*\*Classification as per Infomerics' standards*

**Status of non-cooperation with previous CRA:** Issuer not cooperating by Brickwork vide press release dated Feb 09, 2021 due to non-availability of information.

**Any other information:** Nil

**Rating History for last three years:**

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2021-22)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2020-21 (Dated: July 08, 2020)	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1.	Long Term Fund Based Limits – Cash Credit	Long Term	5.00	IVR BB+/ Positive Outlook	IVR BB+/ Stable Outlook	-	-
2.	Short Term Non-Fund Based Limits- Bank Guarantee	Short Term	35.00	IVR A4+	IVR A4+	-	-

**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](http://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 Bank Facility-Cash Credit	-	-	-	5.00	IVR BB+/Positive Outlook
Short term Bank Facility-Bank Guarantee	-	-	-	35.00	IVR A4+

**Annexure 2: List of companies considered for consolidated analysis:** N.A. Standalone Approach followed

**Annexure 3: Facility wise lender details** <https://www.infomerics.com/admin/prfiles/Lender-SSEBPL-06-10-21.pdf>



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**Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable**

**Annexure 5: Complexity level of the rated Instruments/Facilities**

Sr No.	Instrument	Complexity Indicator
1.	Cash Credit	Simple
2.	Bank Guarantee	Simple

**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](http://www.infomerics.com).