Press Release

Tuaman Engineering Limited
June 26, 2023

Rating

Facility	Amount (Rs. Crore)	Rating	Rating Action	Complexity Indicator
Long Term/ Short Term Bank Facilities	433.00 (enhanced from 320.00)	IVR A-; Negative / IVR A2+ (IVR Single A Minus with Negative Outlook/ IVR A Two Plus)	Reaffirmed with revision in outlook from Stable to Negative	Simple
Total	**433.00 (Rupees four hundred and thirty-three crore only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The reaffirmation of the rating assigned to the bank facilities of Tuaman Engineering Limited (TEL) continues to derive comfort from its experienced & professional management supported by its qualified managerial & technical team, proven project execution capability and reputed clientele. Further, the rating also note growth in its scale of operations with improvement in profitability in FY23. These rating strengths are however offset by its presence in highly fragmented construction sector, susceptibility of its profit to volatility in input prices and its moderate working capital intensity. The rating also notes rise in total debt of the company resulting in moderation in capital structure coupled with moderation in debt protection metrics in FY23. The outlook is revised from stable to negative due to outflow of funds from TEL to its group company. The outlook will be revised to stable from negative on receipt of funds into the company as confirmed by the promoters within the specified timeline.

Key Rating Sensitivities:

Upward Factors

- Growth in scale of operations with improvement in profitability with EBITDA margin
- Sustenance of the capital structure with improvement in the debt protection metrics with interest coverage to over 3x
- Manage working capital requirements efficiently with improvement in liquidity position and reduction in its operating cycle.

Downward Factors

- Dip in operating income and/or profitability impacting the debt protection metrics.
- Moderation in the capital structure with deterioration in overall gearing to more than 2x and/or moderation in interest coverage ratio to below 2x.
- Moderation in the operating cycle leading to any deterioration in liquidity profile

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced & 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 professionals. The company has acquired strong engineering acumen through its successful operations over the years. Moreover, he has an extensive and experienced of designing & drawing department along with many experienced engineers having rich credentials in the infrastructure/construction sector to cater to its regular requirements.

- **Group support**

Initially, TEL was promoted to support Himadri Speciality Chemical Limited (HSCL) in its capacity expansion projects and thereafter, it has been working as an independent company. However, being a part of the Himadri group, TEL enjoys support from the group. The group has established relationship with major steel producers in the country which TEL is leveraging in many matters, including negotiation of rates. Further, the promoters have undertaken to infuse funds to the tune of ~Rs.50 Crore & ~Rs.75 Crore during FY24 & FY25 respectively to support the net worth of TEL.

- **Proven project execution capability**

Over the years, the company has successfully completed many projects across the country for various medium to large government companies and reputed private companies. In order to manage the projects in a better way and to grow in a balanced way, 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 includes central PSUs like GAIL, Bharat Petroleum Corporation Ltd, 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 Rs.2003.75 Crores as on March 31,2023) which is about 3.07 times of its FY23 construction revenue (i.e. Rs 652.16 crore). The orders are expected to be completed within the next two-three years, indicating a satisfactory medium-term revenue visibility.

- **Growth in scale of operations with improvement in profitability**

Total operating income of the company increased in FY23 (provisional) by ~22% to Rs. 696.29 crore as compared to Rs. 574.45 crore in FY22 driven by higher execution of orders during the year. With increase in top line, absolute EBITDA was also improved from Rs.35.57 crore in FY22 to Rs.56.75 crore in FY23 (provisional). Moreover, the operating margin and the PAT margin also improved from 6.19% and 3.60% respectively in FY22 to 8.15% and 4.30% respectively in FY23.

Key Rating Weaknesses

- **Susceptibility of profitability to 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, presences of escalation clause in most of the contracts provides significant comfort.

- **Moderation in capital structure along with debt protection metrics in FY23**

TEL's capital structure, though deteriorated, remain moderate marked by long term debt equity ratio at 0.79x and overall gearing ratio at 1.70x respectively as on March 31, 2023 as against 0.01x and 0.63x respectively as on March 31, 2022 respectively. The deterioration in the capital structure is driven by increase in bank borrowings and term loan during the year. Further, total indebtedness of the company as reflected by TOL/TNW moderated to 2.96x as on March 31, 2023, against 1.98x as on March 31, 2022. The interest coverage ratio though continues to remain healthy, moderated from 4.56x in FY22 to 2.59x in FY23 with increase in finance charges. In tandem with absolute EBITDA, GCA of TEL has also witnessed a sharp rise from Rs. 22.45 crore in FY22 to Rs 32.91 crore in FY23. Total debt/GCA also moderated from 3.55x in FY22 to 8.11x in FY23 due to increase in total debt. However, TEL generates adequate gross cash accruals to service its debt obligations.

- **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. A 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: Standalone

Applicable Criteria:

Rating Methodology for Infrastructure Companies
Parent and group support
Financial Ratios & Interpretation (Non-Financial Sector)
Criteria of assigning rating outlook

Liquidity: Adequate

The liquidity position of the company is expected to remain adequate in the near to medium term driven by expected sufficient cushion in its accruals in the range of ~Rs. 40.91 crore to Rs.63.50 crore as compared to debt repayment obligation in the range of ~Rs. 14.98 crore to Rs.20.80 crore during FY24-26. Besides, its average bank limit utilisation remained moderate at ~80% in the 12 months ended February 2023 is also indicating an adequate liquidity buffer.

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 of Tuaman Engineering Limited (Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2022	31-03-2023
	Audited	Provisional
Total Operating Income	574.45	696.29
EBITDA	35.57	56.75
PAT	20.77	30.31
Total Debt	79.63	266.72
Tangible Net worth	126.79	157.03
EBITDA Margin (%)	6.19	8.15
PAT Margin (%)	3.60	4.30
Overall Gearing Ratio (x)	0.63	1.70
Interest Coverage Ratio (x)	4.56	2.59

**Classification as per Infomerics' standards.*

Status of non-cooperation with previous CRA: Nil.

Any other information: Nil

Rating History for last three years:

(Rs. Crore)

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
1.	Long Term/ Short Term Fund /Non Fund Based Facilities	Long Term/ Short Term	433.00	IVR A-; Negative / IVR A2+	IVR A- ; Stable /IVR A2+ (March 28, 2022)	IVR A; Stable /IVR A1 (January 18, 2021)	IVR A; Stable /IVR A1 (November 29, 2019)

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About Infomerics Ratings:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

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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/ Short Term Fund /Non Fund Based Facilities	-	-	-	433.00	IVR A-; Negative / IVR A2+

Annexure 2: Facility wise lender details:

https://www.infomerics.com/admin/prfiles/Len-Tuaman-jun23.pdf

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Annexure 3: List of companies considered for consolidated analysis: Not Applicable

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

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.