Press Release

Tuaman Engineering Limited

November 29, 2019

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action
Long Term/ Short Term Fund /Non fund Based Facilities	220.00 (enhanced from 180.00)	IVR A /Stable (IVR Single A with Stable Outlook) / IVR A1 (IVR A One)	Upgraded from IVR A-/Stable / IVR A2+ (IVR Single A Minus with Stable outlook/IVR A Two Plus)
Total	**220.00**		

Details of Facilities are in Annexure 1

Detailed Rationale

The upgrade in ratings reflects the improvement in Tuaman Engineering Limited's (TEL) operational profit leading to improvement in its cash accruals driven by healthy growth in its operations in FY19 and H1FY20, sustenance of its comfortable capital structure and healthy debt protection metrics. The ratings also positively factors in its strong order book reflecting satisfactory medium term revenue visibility. Furthermore, the ratings continues to derive comfort from its experienced & professional management, qualified managerial & technical team, proven project execution capability and reputed clientele. The rating strengths are however offset by presence in highly fragmented & construction sector with significant price war, customer concentration risk, susceptibility of profit to volatility in input prices and its moderate working capital intensity.

Rating Sensitivities

Upward Factor:

- Sustenance of growth in scale of operations with improvement in profitability
- Sustenance of the capital structure

Downward factor:

- Any deterioration in liquidity profile
- Moderation in the capital structure with deterioration in overall gearing to more than 1x

Detailed Description of Key Rating Drivers

Key Rating Strengths

- **Experienced & highly qualified managerial & technical team**

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

- **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 include 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 28 contracts amounting to about Rs.807.24 Crores as on August 31, 2019 which is about 1.95 times of its FY19 construction revenue (i.e., Rs.412.92 crore). The orders are expected to be completed within next one-two years, indicating a satisfactory medium term revenue visibility.

- **Healthy growth in operations in FY19 and in H1FY20**

TEL's total operating income registered a robust y-o-y growth of about 123.09% in FY19, mainly driven by increased order inflow and higher execution of orders. With increase in its total operating income the absolute EBIDTA of the company increased substantially. However, the EBIDTA margin in FY19 stood at 9.19% (9.49% in FY18). The moderation in the EBITDA margin was mainly on account of execution of few low margin contracts coupled with higher increase in raw material cost vis-à-vis total operating income. However, the company has earned a healthy gross cash accruals of Rs.27.22 crore in FY19 (Rs.11.11 crore in FY18). In H1FY20, TEL reported an EBIDTA of Rs.26.50 crore (Rs.15.07 crore in H1FY19) and PBT of Rs.22.95 crore (Rs.13.44 crore in H1FY19) on a total operating income of Rs.281.98 crore (Rs.176.30 crore in H1FY19).

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

TEL's capital structure, though deteriorated owing to increase in its total debt, continues to remain comfortable marked by long term debt equity ratio of 0.01x and overall gearing of 0.25x as on March 31, 2019. The company had to take increased debt to fund its increased working capital requirement to support its increased scale of operation. The interest coverage ratio also continues to remain healthy and improved from 7.03x in FY18 to 10.42x in FY19. However, the Total debt/GCA though marginally moderated from 0.44x in FY18 to 0.59x in FY19 due to increase in total debt, continues to remain comfortable. Total indebtedness as reflected by the TOL/TNW remained satisfactory at 2.58x as on march 31, 2019. Further, the average cash credit limit utilization of the company remained comfortable at ~31% during the past 12 months ended September, 2019.

Key Rating Weaknesses

- **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.

- **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.

- **Customer concentration risk**

Top five customers cater to ~43% of total operating income in FY19, indicating a moderately 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 53 days in FY19 (64 days in FY18) on account of the company managing its receivables cycle well. The working capital requirement of the company is mainly funded through credit period availed from its creditors based on its established relationship and bank borrowings. Further, the company has a strategy to take up short-medium duration contracts and optimize the execution time to realize the payments faster in order to manage working capital requirements efficiently.

Rating Sensitivities

Upward Factor:

- Sustenance of growth in scale of operations with improvement in profitability
- Sustenance of the capital structure
- Manage working capital requirement efficiently

Downward factor:

- Any deterioration in liquidity profile
- Moderation in the capital structure with deterioration in overall gearing to more than 1x

Analytical Approach: Standalone

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	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	203.31	453.56
EBITDA	19.30	41.67
PAT	10.82	26.77
Total Debt	4.93	15.96
Tangible Net worth	37.89	64.49
EBITDA Margin (%)	9.49	9.19
PAT Margin (%)	5.31	5.89
Overall Gearing Ratio (x)	0.13	0.25

*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 2019-20)			Rating History for the past 3 years				
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-19			Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Long Term/ Short Term Fund /Non Fund Based Facilities*	Long Term/ Short Term	220.00	IVR A / Stable Outlook / IVR A1	IVR A- / Stable Outlook (January 16, 2019)	IVR A- / Stable Outlook (May 25, 2018)	IVR A- / Stable Outlook (Apr 3, 2018)	-	-
2.	Short term Non Fund Based Facilities*	Short term	-	-	IVR A2+ (January 16, 2019)	IVR A2+ (May 25, 2018)	IVR A2+ (Apr 3, 2018)	-	-

*There has been reclassification of limit, where all the long term and short term limits have been reclassified as Long Term/ Short Term Fund /Non- fund Based Facilities

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.

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	-	-	-	220.00 (enhanced from 180)	IVR A / Stable Outlook / IVR A1