



Press Release

Siddhartha Engineering Limited

August 07, 2024

Ratings

| Facility | Amount (Rs. crore) | Current Ratings | Previous Ratings | Rating Action | Complexity Indicator |
|----------------------------------|---|---|---------------------|------------------|-------------------------|
| Long-term Bank Facilities | 46.99 | IVR BBB-/ Stable (IVR Triple B Minus with Stable Outlook) | - | Assigned | Simple |
| Short-term Bank Facilities | 112.75 | IVR A3 (IVR A Three) | - | Assigned | Simple |
| Total | 159.74 (Rs. One hundred fifty- nine crore and seventy- four lakh only) | | | | |

Details of Facilities/Instruments are in Annexure 1. Facility wise lender details are at Annexure 2. Detailed explanation of covenants is at Annexure 3.

Detailed Rationale

The ratings assigned to the bank facilities of Siddhartha Engineering Limited (SEL) derives comfort from its experienced promoters with long track record, continuous growth in operating income coupled with improvement in profitability during FY24 (refers to period April 1st, 2023, to Mar 31st, 2024) provisional, healthy order book position and satisfactory financial risk profile. These rating strengths are partially offset by high degree of competition and fragmentation and working capital intensive nature of business.

Key Rating Sensitivities:

Upward Factors

- Sustained revenue growth coupled with improvement in profit margin on a sustained basis
- Growth in cash accrual and prudent working capital management
- Improvement in leverage ratios

Downward Factors

- Any decline in revenue and profit margin on a sustained basis
- Moderation in the capital structure with deterioration in overall gearing ratio
- Deterioration in debt protection metrics and Total debt/GCA



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List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced promoters with long track record**

SEL has around four decades of long track record in the industry, and the promoters Mr. Sudhansu Sekhar Palo and Mrs. Madhuri Palo possesses more than four decades of experience in business and have long standing presence of the promoters in the industry has helped the company to establish a healthy relationship with its clients.

- **Continuous growth in operating income coupled with improvement in profitability during FY24 (prov.)**

Total operating income (TOI) of the company has increased at CAGR of ~12% during last three financial years and ended at ~Rs.130.47 crore at the end of FY24 (Prov.) on the back of higher execution of in hand orders. Further, profitability of the company has improved in FY24(prov.) with increase in both EBITDA and PAT margin on the back of execution of few high margin projects during FY24 (prov.) coupled with economy of scale.

- **Healthy order book position**

The company has a strong order book amounting to ~Rs. 328.95 crore which is around 2.50x the current revenue of FY2024(prov.) providing revenue visibility in near to medium term. Successful execution of the projects has also helped in getting repeated and large-sized orders from clients. Timely execution of the contracts awarded will be key for the company in scaling up the current operations.

- **Satisfactory financial risk profile**

The financial risk profile of the company remains satisfactory marked by improvement in leverage ratios, debt coverage indicators and TOL/TNW and also improvement in liquidity. Considering subordinated unsecured loan as quasi equity, overall gearing ratio has further improved to 0.48x as on March 31, 2024(prov.), from 0.67x as on March 31, 2023, on the back of accretion of profit to reserve and repayment of term loan coupled with infusion of capital in the form of subordinated unsecured loan of ~Rs.2 crore in 2023-24 by promoters. Interest coverage ratio has improved to 2.18x in FY24 from 2.04x in FY23 (refers to period April 1st, 2022, to Mar 31st, 2023) on the back of higher increase in operating profit during FY24(prov.). Total debt to NCA has improved to 4.51x in FY24(prov.) from 6.66x in FY23 with the increase



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in NCA level in FY24. TOL/TNW has improved in FY24(prov.) to 1.06x from 1.27x in FY23 with the improvement in net worth level. Liquidity marked by current ratio has improved to 1.93x as on March 31, 2024. Further, Net cash accrual has also increased in FY24 Rs.8.56 crore from Rs.7.08 crore in FY23 which has further improved liquidity in the system.

Key Rating Weaknesses

- **High degree of competition and fragmentation**

The industry is characterized by high fragmentation with a large number of players, constraining the pricing power of SEL. Besides, growth of SEL is intertwined with the growth of the economy at large and is dependent on government finances. Having said that, SEL has enough scope to obtain new orders on account of Government's continuous focus on development of the power sector.

- **Working capital intensive nature of business**

The operation of the company is highly working capital intensive marked by its long operating cycle due to its high collection period (242 days in FY24) and high inventory period (125 days in FY24). Further, blockage of funds in retention money which released only after the completion of certain stage of work also fueled the high working capital requirements. Excluding retention money, average collection period was 116 days in FY24. The average collection period also remained stretched mainly due to procedural delays in realizing payment from Government departments. The average working capital utilization is moderate at around 83% during last 12 months ending in June 2024, which imparts moderate liquidity buffer.

Analytical Approach: Standalone

Applicable Criteria:

[Rating Methodology for Infrastructure Companies.](#)

[Financial Ratios & Interpretation \(Non-Financial Sector\).](#)

[Criteria for assigning Rating outlook.](#)

[Policy on Default Recognition](#)

[Complexity Level of Rated Instruments/Facilities](#)



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Liquidity – Adequate

SEL has earned a gross cash accrual of Rs. 7.08 crore in FY23 and Rs. 8.56 in FY24(Prov.). Further the company is expected to earn a gross cash accrual in the range of ~Rs. 12 to 24 crore as against its debt repayment obligations around ~Rs. 0.33 to 1.5 crore per year during FY25-27. Accordingly, the liquidity position of the company is expected to remain adequate in the near to medium term with low repayment obligations and no further debt funded capex plan. Further, average cash credit utilisation of the company remained moderate at ~83% during the past 12 months ended June 2024 indicating adequate liquidity cushion.

About the Company

Siddhartha Engineering Limited (SEL) was established as a partnership firm, in the year 1972 by Mr. Sudhansu Sekhar Palo and later, in the year 1986, the company incorporated into a Private Limited company and subsequently as public limited company with the present name in 2008. The company is engaged in execution of turnkey electrical engineering contracts which includes designing, supply, erection, commissioning and testing of electrical substations for various government organizations. The company is headquartered at Bhubaneswar, Orissa & having pan-India presence. The operation of the company is ISO 9001 certified and the company is a Construction Industry Development Council – Certified vendor.

Currently, Mr. Sudhansu Sekhar Palo, Managing Director, looks after day-to-day affairs of the company along with other directors, and a team of experienced personnel.

Financials (Standalone):

| For the year ended/ As on* | (Rs. crore) | |
|-----------------------------|-------------|-------------|
| | 31-03-2023 | 31-03-2024 |
| | Audited | Provisional |
| Total Operating Income | 124.26 | 130.47 |
| EBITDA | 16.51 | 18.87 |
| PAT | 6.35 | 7.80 |
| Total Debt | 47.13 | 38.66 |
| Adjusted Tangible Net Worth | 70.01 | 79.79 |
| EBITDA Margin (%) | 13.29 | 14.46 |
| PAT Margin (%) | 5.07 | 5.94 |
| Overall Gearing Ratio (x) | 0.67 | 0.48 |
| Interest Coverage (x) | 2.04 | 2.18 |

* Classification as per Infomerics' standards.



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Status of non-cooperation with previous CRA: CARE Ratings vide its press release dated January 04, 2024 has continued the rating under Issuer Not Cooperating category due to non-submission of information by the company.

Any other information: Nil

Rating History for last three years:

| Sr. No. | Name of Security/Facilities | Current Ratings (Year 2024-25) | | | Rating History for the past 3 years | | |
|---------|-----------------------------|--------------------------------|--------------------------------|-----------------|---|---|---|
| | | Type (Long Term/Short Term) | Amount outstanding (Rs. Crore) | Rating | Date(s) & Rating(s) assigned in 2023-24 | Date(s) & Rating(s) assigned in 2022-23 | Date(s) & Rating(s) assigned in 2021-22 |
| 1. | GECL | Long Term | 1.77 | IVR BBB-/Stable | - | - | - |
| 2. | ECLGS | Long Term | 0.22 | IVR BBB-/Stable | - | - | - |
| 3. | Cash Credit | Long Term | 35.00 | IVR BBB-/Stable | - | - | - |
| 4. | Overdraft | Long Term | 10.00 | IVR BBB-/Stable | - | - | - |
| 5. | Bank Guarantee | Short Term | 93.75 | IVR A3 | - | - | - |
| 6. | Letter of Credit | Short Term | 19.00 | IVR A3 | - | - | - |

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

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Annexure 1: Instrument/Facility Details:

| Name of Facility/ /Security | ISIN | Date of Issuance | Coupon Rate/ IRR | Maturity Date | Size of Facility (Rs. Crore) | Rating Assigned/ Outlook |
|--------------------------------|------|---------------------|---------------------|------------------|---------------------------------|-----------------------------|
| GECL 1 | - | - | - | Oct, 2024 | 0.43 | IVR BBB-/ Stable |
| GECL 2 | - | - | - | Mar, 2027 | 0.92 | IVR BBB-/ Stable |
| GECL Ext | - | - | - | Dec, 2024 | 0.42 | IVR BBB-/ Stable |
| ECLGS | - | - | - | Sept, 2024 | 0.22 | IVR BBB-/ Stable |
| Cash Credit 1 | - | - | - | - | 10.00 | IVR BBB-/ Stable |
| Cash Credit 2 | - | - | - | - | 10.00 | IVR BBB-/ Stable |
| Cash Credit 3 | - | - | - | - | 10.00 | IVR BBB-/ Stable |
| Cash Credit 4 | - | - | - | - | 5.00 | IVR BBB-/ Stable |
| Overdraft | - | - | - | - | 10.00 | IVR BBB-/ Stable |
| Bank Guarantee 1 | - | - | - | - | 38.00 | IVR A3 |
| Bank Guarantee 2 | - | - | - | - | 13.25 | IVR A3 |
| Bank Guarantee 3 | - | - | - | - | 22.00* | IVR A3 |
| Bank Guarantee 4 | - | - | - | - | 6.00 | IVR A3 |
| Bank Guarantee 5 | - | - | - | - | 14.50# | IVR A3 |
| Letter of Credit 1 | - | - | - | - | 15.00 | IVR A3 |
| Letter of Credit 2 | - | - | - | - | 4.00 | IVR A3 |

* LC of Rs.13.00 crore is sublimit of BG; # LC of Rs.3.00 crore is sublimit of BG

Annexure 2: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/Len-Siddhartha-Engi-07aug24.pdf>



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Annexure 3: Detailed explanation of covenants of the rated Security/facilities: Not Applicable

Annexure 4: List of companies considered for consolidated/Combined analysis: 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.

