Sattva Engineering Construction Private Limited (SECPL)

February 16, 2024

Ratings:

Sl. No.	Type of Facility	Rated Amount (Rs Cr.)	Ratings	Rating Action	Complexity Indicator
1	Long Term Bank Facilities	24.62	IVR B+/Stable (IVR Single B plus with stable outlook)	Upgraded	Simple
2	Short Term Bank Facilities	44.50	IVR A4 (IVR A four)	Upgraded	Simple
Total		**69.12 (Rupees sixty nine crore and twelve lakh only)**			

Details of Facilities are in Annexure 1

Detailed Rationale:

The upgrade of the ratings takes into account the timely servicing of the debt since September 2023. Further, the ratings also takes into account experienced promoters, satisfactory order book position, modest scale of operations, satisfactory profitability margin and capital structure, low counterparty credit risk. However, the ratings are constrained by elongated working capital cycle, weak debt coverage indicators, profitability margins are susceptible to fluctuation in raw material prices, Geographical Concentration and project execution risk.

Key Rating Sensitivities:

Upward Factors:

- Continued growth in scale of operations and maintaining profitability as projected
- Improvement in leverage and debt coverage indicators

Downward Factors:

- Any decline in revenue and profitability leading to deterioration in capital structure
- Any further deterioration in liquidity profile

Key Rating Drivers with detailed description

Key Rating Strengths:

Experienced promoters

SECPL is promoted by Mr. S. Seshadri & Mr. R. Sekar, both of whom have a wealth of experience in the engineering and construction field. Mr. S. Seshadri came through the ranks by working as a site engineer for over 3 years post which he worked as a senior engineer at a leading construction company in Vizag- responsible for timely execution of projects, coordinating with sub-contractors and suppliers in finalising rates and monitoring the overall progress of the projects in hand. Mr. R. Sekar has also had a long career in construction & engineering and has overseen a variety of high-profile cases. The engineering division specialises in the construction of Warehouse & Yard developments, Industrial Buildings, Commercial buildings, Water & Sewage treatment plants with collection & distribution systems, residential complexes, power stations & sub-stations. The company is a CLASS I contractor in state level special buildings circle, Public Works Department, Chennai, Chennai Metropolitan Water Supply and Sewerage Board, Chennai.

Satisfactory order book position

The order book position of the company stood at Rs. 196.15 crore as of January 25, 2024 which translates 2.30x of FY23's revenue and expected to execute within March 2025. The order book of the company is geographically concentrated in Tamil Nadu. The concentrated orders from Tamil Nadu which exposes the company to changes in state government's policy of infrastructure and political conditions in that region.

Modest scale of operations

The company reported with stable increase in total income ranging from Rs. 50 crore to ~Rs. 90 crore over past five years ended FY23. The company majorly executed the orders of sewage and water treatment plant for the past years, and this has resulted in increase of total income. The company reported total income of Rs.83.64 Cr in FY23 as against Rs.88.07Cr in FY22. The decline in revenue is due to inability to raise the bills and the amount of work is shown in the work in progress of ~Rs.16 Cr in FY23.

Satisfactory profitability margin and capital structure

The company's EBIDTA margin improved to 9.06% in FY23 against 7.47% in FY22. The overall gearing improved to 1.54 times as on March 31, 2023 as against 1.70 times as on march 2022. The networth of the company stood at Rs.21.38 Cr as on march 31, 2023 as against Rs.20.44 Cr as on march 31, 2022.

Low counterparty credit risk

Their current order book primarily consists of projects assigned by the Chennai Metropolitan Water Supplies and Sewerage Board and these projects are funded by the Amrut, being a world-renowned agency, which promotes worldwide development of civic facilities, being back by the United Nations and the Government of India. The Amrut has much credibility when it comes to fulfilling their payment obligations.

Key Rating Weaknesses:

Elongated working capital cycle:

The operating cycle of the company remained elongated at 168 days in FY23 due to stretched collection period to 172 days from 117 days in FY22. The company bids orders from government sector, thereby the collection period stood elongated, and it includes retention money of which 50% will be realized post final bill and remaining after defect liability period.

Weak debt coverage indicators

The debt coverage indicators improved albeit remained weak marked by Total debt/GCA to 23.55x as of March 31, 2023 from 24.62x as of March 31, 2022 due to increase in cash accruals in line with increase in operating profit. The interest coverage almost remained at same level at 1.26x in FY23 and 1.29x in FY22. The total outside liabilities/TNW also deteriorated to 2.99x as of March 31, 2023 from 2.87x as of March 31, 2022.

Profitability margins are susceptible to fluctuation in raw material prices

The raw material is the major cost driver and the prices of the same are volatile in nature therefore the cost base remains exposed to any adverse price fluctuations in the prices of cement, bricks, sand, bitumen, steel, being major cost components amongst all materials. The company bids most of the projects with price escalation clause. Absence of price escalation clause in some of the orders leads to the profit margins of the company are susceptible to fluctuation in raw material prices.

Project execution risk

The value of a project is measured by the ability of the entity to complete any project in a timely manner and in compliance of all committed specifications. Any delays in project execution can have a negative impact on collections from customers and salability of projects, which can lead to constrained liquidity. The project costs are dependent on a variety of variables such as the nature of the terrain, environmental clearances, and other externalities. Infrastructure companies also face challenges relating to shortage of labour, equipment, and availability of key raw materials on time.

Weather, labour problems and difficulty in terrain may lead to construction delays and cost escalations.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Infrastructure Companies
Financial Ratios & Interpretation (Non-Financial Sector)
Criteria on Default Recognition
Criteria for rating outlook

Liquidity- Stretched

The company is expected to generate moderately matched cash accruals for the future repayment obligation. The company recorded cash and bank balance of Rs. 5.97 crore as of March 31, 2023. The average utilisation of working capital limits stood at ~90% for last twelve months ended January 2024.

About the Company:

SECPL was set up in 1989 as a proprietorship firm, a member of Sattva Business Group and reconstituted as a private limited company in 2005. Sattva Engineering Construction Private Limited (SECPL) undertakes civil and industrial contracts. Its daily operations are managed by its promoters, Mr. S. Seshadri and Mr. R. Sekar. It is based in Chennai (Tamil Nadu).

Financials: Standalone

For the year ended / INR. Crore*	**31-03-2022**	**31-03-2023**
	Audited	**Audited**
Total Operating Income	88.07	83.64
EBITDA	6.58	7.58
PAT	0.93	1.04
Total Debt	34.67	32.95
Tangible networth	18.32	21.38
Ratios		

For the year ended / INR. Crore*	31-03-2022	31-03-2023
EBIDTA Margin (%)	7.47	9.06
PAT Margin (%)	1.06	1.24
Overall Gearing Ratio (x)	1.81	1.54

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Brickwork rating continued to place the ratings of Sattva Engineering Construction Private Limited under 'issuer not cooperating' category vide PR dated January 23, 2023 due to the issuer/borrower failed to submit such information before the due date.

Any other information: Not Applicable

Rating History for last three years:

Sr. No.	Name of Instrument /Facilities	Current Ratings (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (INR Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23 (PR dated September 13, 2023)	Date(s) & Rating(s) assigned in 2022-23 (PR dated September 14, 2022)	Date(s) & Rating(s) assigned in 2021-22 (PR dated June 18, 2021
1.	Fund Based - Term Loans	Long Term	2.62	IVR B+/Stable	IVR D	IVR BB ISSUER NOT COOPERATING	IVR BB+/ Stable
2.	Fund Based – Cash Credit	Long Term	22.00	IVR B+/Stable	IVR D	IVR BB ISSUER NOT COOPERATING	IVR BB+/ Stable
3.	Non-Fund Based- Bank Guarantees	Short Term	44.50	IVR A4	IVR D	IVR A4 ISSUER NOT COOPERATING	IVR A4+

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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).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

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

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of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

Annexure 1: Details of Facilities:

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (INR Crore)	Rating Assigned/ Outlook
Long Term- Fund Based- Term Loan	-	-	December 2026	2.62	IVR B+/Stable
Long Term- Fund Based- Cash Credit	-	-	Not Applicable	22.00	IVR B+/Stable
Short Term- Non-Fund Based- Bank Guarantee	-	-	Not Applicable	44.50	IVR A4

Annexure 2: List of companies considered for consolidated analysis: Not Applicable

Annexure 3: Facility wise lender details:

https://www.infomerics.com/admin/prfiles/len-Sattva-feb24.pdf

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