Press Release

Tuaman Engineering Limited

March 28, 2022

Rating

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating	Rating Action	Complexity indicator
1.	Long Term/ Short Term Bank Facilities	320.00 (Enhanced from 270.00)	IVR A-; Stable/ IVR A2+ (IVR Single A Minus with Stable Outlook/ IVR A Two Plus)	Revised from IVR A; Stable/ IVR A1 (IVR Single A with Stable Outlook/ IVR A One)	Simple
	Total	**320.00 (Rupees three hundred and twenty crores only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The revision in the rating assigned to the bank facilities of Tuaman Engineering Limited (TEL) takes into account moderation in its scale of operations, impairment in its profitability coupled with drop in its gross cash accruals. However, the rating continues to derive comfort from its experienced & professional management supported by its qualified managerial & technical team, proven project execution capability and reputed clientele. The rating also positively factors in its strong order book reflecting satisfactory medium term revenue visibility, its comfortable capital structure and healthy debt protection metrics despite moderation. 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.

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 5x
- 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 1x and/or moderation in interest coverage ratio to below 4x.

- 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**

TEL is associated with Himadri group by virtue of the common promoters between Himadri Speciality Chemicals Limited and 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, Rastriya 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.1667.76 Crore as on December 31,2021) which is about 4.32 times of its FY21 construction revenue (i.e. Rs 385.93 crore). The orders are expected to be completed within next two-three years, indicating a satisfactory medium term revenue visibility.

- **Comfortable capital structure with healthy debt protection metrics albeit moderation in FY21**

TEL's capital structure continues to remain comfortable marked by its nil long-term debt equity and overall gearing ratio at 0.46x as on March 31, 2021. Further, total indebtedness of the company as reflected by TOL/TNW also continued to remain comfortable at 1.64x as on March 31, 2021, against 1.42x as on March 31, 2020. Driven by decline in absolute EBITDA, the interest coverage ratio deteriorated in FY21 to 4.34x from 8.84x in FY20 though continues to remain healthy. In line with absolute EBITDA, GCA of TEL has also witnessed moderation from Rs.30 Crore in FY20 to Rs.14.19 crore in FY21 which coupled with rise in total debt resulted in moderation in Total debt/GCA from 1.23x in FY20 to 3.44x in FY21.

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 scale of operations with moderation in profitability**

During FY21, the topline of the company contracted by ~29% and stood at Rs.427.62 crore mainly due to impacted operations, lower execution of pending work orders attributable to nationwide lock down amidst Covid pandemic and labour shortage thereafter. With moderation in topline, absolute EBITDA was also moderated from Rs.44.64 crore in FY20 to Rs.22.37 crore in FY21. Further, the operating margin though remained satisfactory moderated to 5.23% in FY21.The PAT margin also moved in tandem with the EBITDA margin and though remained satisfactory to 3.03% in FY21. During 9MFY22, TEL has achieved revenue of Rs.390.94 crore.

- **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.

- **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) had declined to 79 days in FY21 (51 days in FY20). 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 to manage working capital requirements efficiently.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Infrastructure Companies
Financial Ratios & Interpretation (Non-financial Sector)

Liquidity: Strong

The Company has a strong liquidity position marked by its insignificant debt repayment obligations during FY22-FY24. The company has earned GCA of Rs.14.19 crore in FY21 and is expected to earn cash accruals in the range of Rs. 22.13 crore to Rs.40.86 crore in next three years during FY22 to FY24. Moreover, average fund-based limit utilization of the company also remained satisfactory at ~76% for last 12 months ended January 2022 and the company has sufficient gearing headroom due to its comfortable capital structure.

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	31-03-2020	31-03-2021
	Audited	**Audited**
Total Operating Income	601.26	427.62
Total Income	601.50	428.89
EBITDA	44.64	22.37
PAT	29.31	13.01
Total Debt	36.99	48.87
Adjusted Net worth	93.45	106.17
EBITDA Margin (%)	7.42	5.23
PAT Margin (%)	4.87	3.03
Overall Gearing Ratio (x)	0.40	0.46

**As per Infomerics' Standard*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Nil

Rating History for last three years with Infomerics:

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	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19		
1.	Long Term/ Short Term Fund /Non Fund Based Facilities	Long Term	320.00	IVR A- / Stable Outlook /IVR A2+	IVR A/ Stable Outlook /IVR A1 (January 18, 2021)	IVR A / Stable Outlook / IVR A1 (November 29, 2019)	IVR A- / Stable Outlook (January 16, 2019)	IVR A- / Stable Outlook (May 25, 2018)	IVR A- / Stable Outlook (Apr 3, 2018)

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	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19		
2.	Short term Non Fund Based Facilities	Short term	-	-	-	-	IVR A2+ (January 16, 2019)	IVR A2+ (May 25, 2018)	IVR A2+ (Apr 3, 2018)

Name and Contact Details of the Rating Analyst:

Name: Ms. Nidhi Sukhani	Name: Mr. Avik Podder
Tel: (033) 46022266	Tel: (033) 46022266
Email: nsukhani@infomerics.com	Email: apodder@infomerics.com

About Infomerics:

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.

For more information visit www.infomerics.com recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal 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 (Rs. Crore)	Rating Assigned/ Outlook
Long Term/ Short Term Fund/Non fund Based Facilities	-	-	-	320.00	IVR A- / Stable Outlook/ IVR A2+

Annexure 2: Facility wise lender details:

https://www.infomerics.com/admin/prfiles/Tuaman-Engineering-lenders-mar22.pdf

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.