



Press Release

Sree Saravana Engineering Bhavani Private Limited

July 26th, 2023

Ratings

Instrument Facility /	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	15.00	IVR BBB- / Stable Outlook	Revised and removed from Issuer Not Cooperating category	Simple
Short Term Bank Facilities	80.00	IVR A3	Revised and removed from Issuer Not Cooperating category	Simple
Total	95.00	(Rupees Ninety-Five Crore Only)		

Details of Facilities are in Annexure 1

Detailed Rationale

Earlier Infomerics has moved the ratings assigned to the bank facilities of Sree Saravana Engineering Bhavani Pvt. Ltd. into issuer not cooperating category due to non-submission of information by the company. Now the company has duly submitted all the required information for a detailed review and Infomerics has revised & removed the rating from 'ISSUER NOT COOPERATING' category.

The revision in the ratings assigned to the bank facilities of Sree Saravana Engineering Bhavani Private Limited (SSEB) takes into account its experienced promoters, long track record of operations coupled with sound engineering acumen and proven project execution capability and its reputed clientele. The ratings also positively factor in improvement in operating income in FY23 (Prov.) along with its healthy albeit concentrated order book reflecting medium term revenue visibility, healthy profitability, and moderate capital structure with healthy debt protection metrics. These₁ rating strengths however get tempered by



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susceptibility of profitability to volatile input prices, inherent risk as an EPC contractor and highly fragmented & competitive nature of the construction sector with significant price war due to tender driven nature of business, elongated collection period and customer and geographical concentration risk.

Key Rating Sensitivities: Upward

Factors

- Growth in scale of operations with further improvement in profitability margins, and cash on a sustained basis.
- Improvements in the order book position of the company.
- Sustenance of the capital structure with improvement in debt protection metrics

Downward Factors

- Substantial deterioration in operating income and/or profitability of the company impacting its debt protection parameters.
- Any deterioration in liquidity profile on a sustained basis.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced promoters

The promoter, Mr. P. Venkatachalam (Managing Director) is B.A (Doctor in Social Works) by qualification and has more than four decades of experience in the construction sector. Mr. P. Venkatachalam looks after overall operations of the company and is well supported by a team of experienced and qualified professionals.

Long track record of operations with sound engineering acumen with proven project execution capability

Being in operation since 1981, the company has a vast track record of almost four decades. Over the years, the company has acquired strong engineering acumen



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through its successful operations and completed a large number of small, medium and large-sized projects of Hydro-Power Plants, supply and erection of Dam Gates & Penstocks, Storm water drainage systems, etc. across the states of Tamil Nadu, Kerala and Karnataka ensuring timely completion of all its projects. The repeat orders received from its clientele validate its construction capabilities.

Healthy albeit concentrated order book

The company has unexecuted order book of Rs. 467.30 Crore as on 31st May'23, which needs to be completed within the stipulated time period of 6 to 18 months, which provides revenue visibility in the near to medium term. Total unexecuted order book is 4.26 times of the total operating income for FY23 (Prov.). Timely and effective execution of the orders are critical for the company's earnings. However, top 6 orders constituted 94.02% of its outstanding order book as on May 31st, 2023 indicating concentration in order book.

Reputed clientele

SSEB bids for tenders floated by various government departments/entities and caters to private players as well. The Company has delivered projects for reputed names including but not limited to Tamil Nadu Electricity Board (TANGEDCO), Public Works Department (PWD), Storm Water Drainage Department for Corporation, Karnataka Power Corporation Ltd. (KPCL), Kerala State Electricity Board (KSEB), etc. Over the years of its operations, the company has established a strong business relationship with various government departments as well as private clients.

Healthy profitability margins with improvement in scale of operations in FY23

SSEBPL's total operating income declined by 12.32% to Rs.75.12 crore in FY22(A) as against 86.23 Cr in FY21, impacted due to heavy rainfall and flood situation in Tamil



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Nadu from Oct'21 and Nov'21 which disrupted its operations for some period in FY22. However, Total operating income grew by 44.40% in FY23 to Rs.109.66 crore. SSEBPL is generating majority of their revenue from Tamil Nadu only. EBITDA improved from Rs. 8.21 Crore in FY21 to Rs. 10.26 Crore in FY22. However, EBITDA margin improved by 415 bps from 9.52% in FY21 to 13.66% in FY22 due to higher margins earned on executed projects and consistent cost control and efficiency measures stipulated by the Company. EBITDA improved to Rs. 10.63 Crore in FY23 while EBITDA Margin declined by 397 BPS to 9.70% in FY23 due to low margins earned on executed projects. Absolute PBT and PAT has also improved from Rs 7.03 crore and Rs. 5.21 crore respectively in FY21 to Rs 8.25 crore and Rs 6.14 crore respectively in FY22 with gross cash accruals improving from Rs 5.78 crore in FY21 to Rs. 6.84 crore in FY22. PBT and PAT has improved in FY23 to Rs. 10.93 Crore and Rs. 8.20 Crore with decrease in gross cash accruals to Rs. 6.41 Crore in FY23 (Rs. 6.84 crore in FY22). The PAT margin has also increased by 207 bps from 5.99% in FY21 to 8.05% in FY22 due to lower interest expenses and high non-operating income. PAT margin decreased by 61 BPS and stood at 7.44% in FY23.

Moderate capital structure with healthy debt protection metrics

The capital structure remained moderate as on March 31, 2022. The long-term debt to Net worth and overall gearing stood at 0.14x and 0.71x respectively as on March 31, 2022 and 0.08x and 0.36x respectively as on 31st March'23. The total indebtedness of the company as reflected by TOL/TNW deteriorated from 1.36x as on March 31, 2021, to 1.94x as on March 31, 2022 due to increase in bank borrowings and creditors. TOL/TNW improved and stood at 1.02x, as on March 31, 2023 due to decrease in debt and creditors. Interest coverage ratio and Total debt to GCA stood at 5.36x and 2.83x respectively in FY23 as against 4.00x and 4.30x respectively in FY2022.



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Key Rating Weaknesses

Susceptibility of profitability to volatile input prices

Major raw materials used in civil construction activities are steel and cement which are usually sourced from large players at proximate distances. Historically, the cost of these raw materials and steel products have been volatile in nature and hence, profitability margins of the firm are susceptible to fluctuation in raw material prices.

Inherent risk as an EPC contractor

Economic vulnerability and regulatory risks in developing markets, delay in payments from the Government, project execution risk and fluctuating input costs are the key business risk faced by the company in the sector.

Tender driven nature of business in highly fragmented & competitive construction sector

Execution risks for newly awarded projects in a timely manner will be key to achieving growth in revenues and profits. Business certainty is dependent on the company's ability to successfully bid for the tenders as entire business is tender based. The domestic infrastructure sector is highly fragmented marked by 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. SSEBPL faces direct competition from various organized and unorganized players in the market.



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Elongated collection period

SSEBPL operating cycle elongated to 70 days in FY23 due to decrease in average creditors days. The Company's average collection period stood elongated at 167 days in FY23(P) (251 days in FY22) indicating working capital-intensive nature of operation. Further, the debtors more than one year stood high at Rs.10.02 crore as on March 31, 2023.

Customer Concentration as well as Geographical Concentration Risk

Top five customer contributed 90.73% of total operating income in FY23(P) indicating customer concentration risk. Also the company has reported 99.78% of total operating revenue in FY23 from Tamil Nadu and remaining 0.22% of operating revenue from Kerala only, which indicates geographical concentration risk.

Analytical Approach: Standalone.

Applicable Criteria:

[Rating Methodology for Infrastructure Company](#)

[Financial Ratios & Interpretation \(Non- Financial Sector\) Criteria on assigning rating outlook](#)

Liquidity – Adequate

The liquidity of the company is expected to remain adequate on the expectation of sufficient cushion in its cash accruals against its debt repayment obligations. The average working capital utilization of last 12 months, ending in May'23 stood at 58.71% indicating adequate liquidity cushion, however the company's utilisation of non-fund based limits was higher at 90.95% during the same period. The unencumbered cash and bank balance as on 31st Mar'23 is Rs. 0.18 Crore. The Current ratio and quick ratio stood moderate at 1.62x and 1.42x



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respectively, as on March 31, 2023. SSEBPL's operating cycle elongated to 70 days in FY23 due to decrease in average creditors days.

About the Company

Sree Saravana Engineering Bhavani Pvt. Ltd. (SSEB) is based out of Erode, Tamil Nadu and was established in 1981 as a partnership Company (Sri Saravana Engineering Works) by Mr. P. Venkatachalam and his wife Mrs. V. Poongodi and was later converted into a private limited company in December 2010. The company is engaged in the business of EPC contracting working predominantly in Kerala, Karnataka and Tamil Nadu. Currently, the company provides expertise in construction field such as earth fill, rock fill and concrete Dams and Tunnels, and Engineering Procurement Construction (EPC) which includes Civil, Mechanical and Electrical works, Design, Manufacture, Supply, Erection, Testing and Commissioning of Hydro Mechanical & Electro Mechanical equipment such as Turbine, Generator, Governor, Excitation System, LCU Panel, Indoor Electrical Control Panels, 3 Outdoor Substation and connected Electrical & Mechanical Works for Hydro Power Projects from 1 MW to 250 MW, etc. The processes and procedures carried out comply with the requirements of ISO 9001:2017. Also, the operations of the company are currently being looked after by Mr. P. Venkatachalam and Mrs. V. Poongodi.

Financials (Standalone):

(Rs. Crore)		
For the year ended*/ As on	31-03-2022	31-03-2023
	Audited	Provisionals
Total Operating Income	75.12	109.66
EBITDA	10.26	10.63
PAT	6.14	8.20
Total Debt	29.39	18.16
Tangible Net Worth	41.42	50.37
EBITDA Margin (%)	13.66	9.70



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PAT Margin (%)	8.05	7.44
Overall Gearing Ratio (x)	0.71	0.36

** Classification as per Infomerics' standards*

Status of non-cooperation with previous CRA: Brickwork Ratings vide its press release dated 28th Feb 2023 has continued to classify the ratings of the company under Issuer Not Cooperating category on account of non-submission of relevant information.

Care Ratings vide its press release dated 20th Feb 2023 has continued to classify the ratings of the company under Issuer Not Cooperating category on account of non-submission of relevant information.

Any other information: Not Applicable

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2022/23)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2021-22 (Dec 23 rd , 2022)	Date(s) & Rating(s) assigned in 2020-21 (Oct 26 th , 2021)	Date(s) & Rating(s) assigned in 2019-20 (July 08 th , 2020)
1.	Cash Credit	Long Term	15.00	IVR BBB- / Stable	IVR BB; ISSUER NOT COOPERATING	IVR BB+/ Positive	IVR BB+/ Stable
2.	LC's / BG's	Short Term	80.00	IVR A3	IVR A4; ISSUER NOT COOPERATING	IVR A4+	IVR A4+

Name and Contact Details of the Rating Analyst:



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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.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

For more information visit www.infomerics.com.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/IRR	Maturity Date	Size of Facility (INR Crore)	Rating Assigned/ Outlook
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Cash Credit	-	-	-	10.00	IVR BBB- / Stable
Cash Credit	-	-	-	5.00	IVR BBB- / Stable
LC's / BG's	-	-	-	35.00	IVR A3
LC's / BG's	-	-	-	45.00	IVR A3

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

Annexure 3: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/len-sree-saravana-jul23.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.