Press Release

Tuaman Engineering Limited

January 18, 2021

Rating

Instrument / Facility	Amount (Rs. crore)	Rating	Rating Action
Long Term/ Short Term Bank Facilities	270.00 (enhanced from 220.00)	IVR A /Stable (IVR Single A with Stable Outlook) / IVR A1 (IVR A One)	Reaffirmed
Total	**270.00** **(Rupees two hundred and seventy crore only)**		

Details of Facilities are in Annexure 1

Detailed Rationale

The reaffirmation of the rating assigned to the bank facilities of Tuaman Engineering Limited's (TEL) driven by healthy growth in its operations in FY20, 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 rating continues to derive comfort from its experienced & professional management supported by a qualified managerial & technical team, proven project execution capability and reputed clientele. These rating strengths are however offset by its presence in highly fragmented construction sector with significant price war, susceptibility of its profit to volatility in input prices and its moderate working capital intensity. The rating also notes expected moderation in its scale of operation in the near tem.

Key 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

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

Being a part of the Himadri group, TEL enjoys lots of managerial &financial support from HSIL.HSIL has the leadership position in Coal Tar Pitch market and prominent presence in Carbon Black market. Initially, TEL was promoted to support HSIL in its capacity expansion projects and thereafter, it has been working as an independent company. Further, TEL is getting continuous support from HSIL in terms of orders. Moreover, HSIL has established relationship with major steel producers in the country (like Jindal steel and Power Ltd., JSW Steel Ltd., etc.) which TEL is leveraging in many matters, including negotiation of rates.

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, 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 32 contracts amounting to about Rs.774.52 Crores as on September 30, 2020 which is about 1.29 times of its FY20 revenue.

The orders are expected to be completed within next one-two years, indicating a satisfactory medium term revenue visibility.

Healthy growth in operations

TEL's total operating income registered a steady y-o-y growth of ~33% in FY20, 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, EBIDTA margin in FY20 stood at 7.39% (9.19% in FY19). 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. Further, the PAT margin also deteriorated with decline in EBITDA in FY20. The operations were impacted during Q1FY21 amidst Covid pandemic. However, in H1FY21, TEL reported a total operating income of Rs.165.04 crore (Rs.281.98 crore in H1FY20).

Comfortable capital structure with healthy debt protection metrics

TEL's capital structure, though moderated marginally owing to increase in its total debt, continues to remain comfortable marked by the long term debt equity ratio of 0.01x and overall gearing of 0.40x as on March 31, 2020. The increase in total debt was due to fund its increased working capital requirement to suffice its increased scale of operation. The interest coverage ratio continues to remain healthy and improved from 10.42x in FY19 to 8.80x in FY20. However, the Total debt/GCA though marginally moderated from 0.59x in FY19 to 1.23x in FY20 due to increase in total debt, continues to remain comfortable. Total indebtedness as reflected by the TOL/TNW remained satisfactory at 1.42x as on March 31, 2020. Further, the average cash credit limit utilization of the company remained comfortable at ~64% during the past ten months ended November, 2020.

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.

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 51 days in FY20 (534 days in FY19) 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.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Infrastructure Companies

Financial Ratios & Interpretation (Non-financial Sector)

<u>Liquidity: Strong</u>

The Company earned GCA of Rs.30.00 crore in FY20. Further, liquidity position of the company is marked by its strong expected cash accruals of Rs.22.43 crore to Rs.35.91 crore against negligible repayment obligations in next three years from FY21 to FY23. Moreover, TIL utilizes average 64.15% of its fund based limit for last 12 months ended November, 2020 and its unutilized bank lines are more than adequate to meet its incremental working capital needs over the next one year and the company has sufficient gearing headroom due to its comfortable capital structure.

<u>About the Company</u>

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	31-03-2019	31-03-2020
	Audited	Audited
Total Operating Income	453.56	601.04
EBITDA	41.67	44.42
PAT	26.77	29.31
Total Debt	15.96	36.99
Tangible Net worth	64.49	93.45
EBITDA Margin (%)	9.19	7.39
PAT Margin (%)	5.89	4.87
Overall Gearing Ratio (x)	0.25	0.40

*Classification as per Infomerics' standards.

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 2020-21)			Rating History for the past 3 years				
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19			Date(s) & Rating(s) assigned in 2017-18
1.	Long Term/ Short Term Fund /Non Fund Based Facilities*	Long Term/ Short Term	270.00	IVR A / Stable Outlook / IVR A1	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)	-

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2.	Short term Non Fund Based Facilities	Short term	-			IVR A2+ (January 16, 2019)	IVR A2+ (May 25, 2018)	IVR A2+ (Apr 3, 2018)	-

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:

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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	-	-	-	270.00 (enhanced from 220)	IVR A / Stable Outlook / IVR A1

Annexure 2: Facility wise lender details:

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