Press Release

Tuaman Engineering Limited

January 16, 2025

Ratings

Security / Facility	Amount (Rs. crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	52.96 (reduced from 66.89)	IVR A-; Negative (IVR Single A Minus with Negative Outlook)	IVR A-; Negative (IVR Single A Minus with Negative Outlook)	Reaffirmed	Simple
Long Term/ Short Term Bank Facilities	531.93 (enhanced from 518.00)	IVR A-; Negative/ IVR A2+ (IVR Single A Minus with Negative Outlook/ IVR A Two Plus)	IVR A-; Negative/ IVR A2+ (IVR Single A Minus with Negative Outlook/ IVR A Two Plus)	Reaffirmed	Simple
Total	**584.89 (Rupees five hundred and eighty-four crore and eighty-nine 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 reaffirmation of the ratings assigned to the bank facilities of Tuaman Engineering Limited (TEL) continue to derive comfort from its experienced & highly qualified managerial & technical team, group support, reputed clientele and proven project execution capability, adequate order book reflecting satisfactory near to medium-term revenue visibility, stable business performance marked by growth in scale of operations albeit moderation in profitability. However, these rating strengths remain constrained due to susceptibility of its profitability to volatile input prices, moderate capital structure with impairment in debt protection metrics in FY24 [FY refers to the period from April 01 to March 31] and exposure to intense competition in a fragmented industry with a tender-based contract-awarding system restricts margins.

The Negative outlook reflects Infomerics's expectation that the profitability and cash accruals of the company will continue to remain subdued in the near to medium term.

Key Rating Sensitivities:

Upward Factors

- Sustained growth in scale of operations with improvement in profitability
- Improvement in the capital structure and improvement in debt protection metrics with improvement in interest coverage to over 3x
- Effective working capital management leading to reduction in its operating cycle and improvement in liquidity position

Downward Factors

- Dip in operating income and/or moderation in profitability impacting the debt protection metrics.
- Moderation in the capital structure with deterioration in overall gearing to more than 4x and/or moderation in interest coverage ratio to below 1x.
- 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 (WTD) 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 designing & drawing department along with many experienced engineers having rich credentials in the infrastructure/construction sector to cater to its regular requirements.

- **Group support**

Initially, TEL was promoted by the promoters of Himadri Speciality Chemical Limited (HSCL), Chowdhury family to support HSCL in its capacity expansion projects and thereafter, it has been working as an independent company. However, TEL continues to enjoy support from the Himadri group and its promoters. HSCL has established relationship with major steel producers in the country which TEL is leveraging in many matters, including negotiation of rates. During FY24, the promoters have infused funds to the tune of ~Rs.23.35 crore and further during April 2024 to December 2024, have infused funds to the tune of Rs.45.75 crore.

- **Reputed clientele and proven project execution capability**

Major clientele of the company includes 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. 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.

- **Adequate order book reflecting satisfactory near to medium-term revenue visibility**

As on September 30, 2024, the company has an adequate order book position Rs.906.47 crore which is about ~1x of its FY24 revenue (i.e. Rs. 908.58 crore). The orders are expected to be completed within next one to two years, indicating an adequate medium term revenue visibility.

- **Stable business performance marked by growth in scale of operations albeit moderation in profitability**

The total operating income (TOI) of the company increased in FY24 by ~34% to Rs.908.58 crore as compared to Rs.677.36 crore in FY23 driven by higher execution of order. Despite increase in top line, the EBITDA margin moderated from 7.65% in FY23 to 5.44% in FY24 mainly due to increase in raw material consumption expenses vis-à-vis TOI coupled with execution of few low margin contracts. Due to dip in EBITDA, the PAT margin also dampened from 4.35% in FY23 to 2.08% in FY24. In H1FY25, TEL reported TOI of Rs.360.67 crore with EBITDA margin of 7.95%.

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.

- **Moderate capital structure with impairment in debt protection metrics in FY24**

TEL's capital structure (on book TNW) continued to remain moderate marked by long term debt equity ratio at 0.71x and overall gearing ratio at 1.85x respectively as on March 31, 2024 as against 0.79x and 1.51x respectively as on March 31, 2023 respectively. The deterioration in gearing is due to increase in working capital borrowings as on the balance sheet date. TOL/TNW also stood at 3.27x as on March 31, 2024, as against 2.85x as on March 31, 2023. TEL has investments in its group companies amounting to Rs.87.69 crore as on March 31, 2024 [Rs.103.72 crore as on March 31,2023]. Adjusting the said investments from tangible net worth the leverage ratios of the company stood high. The interest coverage ratio continues to remain moderate, though moderated from 2.35x in FY23 to 1.39x in FY24 with increase in finance charges due to elevated debt levels. NCA of TEL although remain healthy, witnessed a moderation from Rs.32.67 crore in FY23 to Rs.23.02 crore in FY24.

- **Intense competition in a fragmented industry with a tender-based contract-awarding system restricts margins**

The civil construction industry is intensely competitive on account of its fragmented nature along with the presence of several players. This coupled with the lowest-bidding-business-procurement structure keeps the margins of all players, including TEL under check. Moreover, the company is also exposed to risks inherent in the construction sector, such as a slowdown in new order inflows and the risks of delays in execution. Operations are also vulnerable to price variations in key raw materials. However, the risk is largely mitigated in the case of contracts that include an escalation clause.

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
Parent and Group Support

Liquidity – Adequate

The liquidity position of the company is expected to remain adequate in the near to medium term driven by expected sufficient cushion in its accruals in the range of ~Rs.47.45 – Rs.64.94 crore as compared to debt repayment obligation in the range of ~Rs.19.35 – Rs.27.44 crore during the projected period of FY25-FY27. Besides, its average bank limit utilisation remained moderate at ~89% in the past 12 months ended September 2024 is also indicating an moderate liquidity buffer. However, the resourcefulness of the promoters also supports the liquidity of the company.

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*	31-03-2023	31-03-2024
	Audited	Audited
Total Operating Income	677.36	908.58
EBITDA	51.79	49.46
PAT	30.00	19.27
Total Debt	237.00	324.67
Tangible Net Worth	156.71	175.78
Adjusted Tangible Net Worth	52.99	88.10
EBITDA Margin (%)	7.65	5.44
PAT Margin (%)	4.35	2.08
Overall Gearing Ratio (x)	4.47	3.69
Interest Coverage (x)	2.35	1.39

* *Classification as per Infomerics' standards.*

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Security/ Facilities	Current Ratings (Year 2024-2025)				Rating History for the past 3 years			
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2024-25	Date(s) & Rating(s) assigned in 2023-24		Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22
					April 03, 2024	Dec 29, 2023	Jun 26, 2023	-	Mar 28, 2022
1.	Long Term/ Short Term Fund /Non-Fund Based Facilities	Long Term/ Short Term	531.93	IVR A-; Negative / IVR A2+	IVR A-; Negative / IVR A2+	IVR A-; Negative / IVR A2+	IVR A-; Negative / IVR A2+	-	IVR A- ; Stable /IVR A2+
2.	Long Term Bank Facilities	Long Term	52.96	IVR A-; Negative	IVR A-; Negative	IVR A-; Negative	-	-	-

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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 and definition of ratings please visit www.infomerics.com.

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
Long Term/ Short Term Fund /Non-Fund Based Facilities	-	-	-	-	531.93	IVR A-; Negative/ IVR A2+
Long Term Bank Facilities	-	-	-	July 2029	52.96	IVR A-; Negative

Annexure 2: Facility wise lender details:
https://www.infomerics.com/admin/prfiles/len-Tuaman-Engineering-jan25.pdf

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.