

Press Release

Tuaman Engineering Limited

May 25, 2018

Ratings

Instrument / Facility	Amount (Rs. Crore)	Ratings	Rating Action
Long Term Fund Based Facilities- Cash Credit	15	IVR A- /Stable (IVR Single A Minus with Stable Outlook)	Reaffirmed
Short Term Non Fund Based Facilities- Bank Guarantee	35 (Enhanced from 25)	IVR A2+ (IVR A Two Plus)	Reaffirmed
Total	50		

Details of Facilities are in Annexure 1

Detailed Rationale

The aforesaid ratings assigned to the bank facilities of Tuaman Engineering Limited (TEL) continues to derive comfort from its experienced & professional management with highly qualified managerial & technical team, proven project execution capability, reputed clientele with strong order book reflecting satisfactory medium term revenue visibility. The comfortable capital structure with healthy debt protection metrics and improving overall financial position also support the ratings. However, the ratings are constrained by its modest scale of operation with revenue concentration risk, volatile input prices, highly fragmented & competitive nature of the construction sector with significant price war and moderate working capital intensity. Maintaining profitability and gearing levels in the context of growing operation and optimising working capital usage are the key rating sensitivities.

List of Key Rating Drivers

- Experienced & professional management with highly qualified managerial & technical team
- Proven project execution capability
- Reputed clientele
- Strong order book reflecting satisfactory medium term revenue visibility
- Improving overall financial position
- Comfortable capital structure with healthy debt protection metrics

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- Modest scale of operation
- Concentration risk
- Moderate working capital intensity
- Volatile input prices
- Highly fragmented & competitive nature of the construction sector with significant price war

Detailed Description of Key Rating Drivers

Key Rating Strengths

Experienced & professional management with 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.

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 manner, 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 Himadri Speciality Chemicals Ltd., besides various central PSUs like GAIL, Bharat Petroleum Corporation Ltd (Kochi Refinery), Indian Oil Corporation Ltd, Rashtriya Ispat Nigam Ltd, Ircon Infrastructure, Burn Standard Co. Ltd., etc. The company generally participates in short to medium duration contracts ranging between one to two years. TEL bids for tenders floated by various government entities across the country.

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Strong order book reflecting satisfactory medium term revenue visibility

The company has a strong order book position comprising 18 contracts amounting to about Rs.518 crore as on January 1, 2018 which is about 5.7 times of its FY17 (FY refers to the period from April 1 to March 31) construction revenue (i.e., Rs.91 crore). The orders are expected to be completed within next one-two years, indicating a satisfactory medium term revenue visibility.

Improvement in overall financial position

TEL has achieved continuous growth, despite slackness in the infrastructure/ construction industry in the recent past. TEL's total income registered a robust CAGR of ~130% during FY14-FY17 with a y-o-y growth of about 76% in FY17, on a low base, mainly driven by increased order inflow and higher execution of orders. TEL also posted a higher EBIDTA margin in FY17 vis-à-vis FY16. The improvement was mainly on account of higher absorption of fixed overheads due to increased scale of operation and execution of some high margin contracts during FY17. PAT margin also followed the same trend during the aforesaid period. Further, as per FY18 estimates TEL earned a total operating income of ~Rs.200 crore.

Comfortable capital structure with healthy debt protection metrics

TEL has a very insignificant amount of long term debt in its books. Further, the promoters infused equity capital of Rs.5.55 crore in FY16. The overall gearing ratio has generally been comfortable; however, the same is expected to deteriorate in future due to higher level of working capital borrowings envisaged in the future years, in tandem with growth in business. Moreover, the debt protection metrics of the company also remained satisfactory, marked by the interest coverage ratio at 6.21x and Total Debt to GCA at 2.48x in FY17. Total debt / EBITDA also remained comfortable at 1.42x in FY17. Further, the interest coverage ratio remained satisfactory at 5.58x in 9MFY18.

Key Rating Weaknesses

Modest scale of operation

The scale of operation of the company is modest in the construction sector with a total operating income of Rs.95.56 crore in FY17 and a net worth base of Rs.24.97 crore as on

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March 31, 2017 signifying its marginal position in the industry. Further, in 9MFY18, the total operating income improved to Rs.117.67 crore and continued to remain modest.

Concentration risk

Top five customers cater to about 85% of total operating income in FY17, indicating a concentrated customer profile. However, most of its large customers are reputed companies in the private & public sectors. Again, the order book of TEL is skewed towards contracts in the eastern part of the country indicating a geographical concentration risk.

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 at about 70-106 days over the past years as many of its clients are government entities having various procedural requirements. Moreover, the operating cycle of the company has generally been, moderate in the last three years and stood at 70 days in FY17. 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 optimise the execution time to realise the payments faster in order to manage working capital requirements efficiently.

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, presence 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

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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.

Analytical Approach & Applicable Criteria:

Rating Methodology for Infrastructure Companies

Financial Ratios & Interpretation (Non-financial Sector)

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 (including road construction), 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 Duttgupta (ED), a Mechanical Engineer with more than two decades of experience in the construction sector.

Financials (Standalone):

For the year ended* / As On	(Rs. crore)	
	31-03-2016	31-03-2017
	Audited	Audited
Total Operating Income	54.19	95.56
EBITDA	2.78	8.69
PAT	1.43	4.78
Total Debt	13.82	12.34
Tangible Net worth*	20.26	24.97
EBITDA Margin (%)	5.13	9.09
PAT Margin (%)	2.58	5.00
Overall Gearing Ratio (x)	0.68	0.49

*Classification as per Infomerics' standards. ^Long pending debtors of Rs.2.27 crore in FY17 and Rs.2.20 crore in FY16 adjusted against the Tangible Net Worth

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Nil

Rating History for last three years:

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Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2018-19)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17	Date(s) & Rating(s) assigned in 2015-16
1.	Long Term Fund Based Facilities - Cash Credit	Long Term	15	IVR A- / Stable Outlook	IVR A- / Stable Outlook		
2.	Short Term Non Fund Based Facilities - Bank Guarantee	Short Term	35	IVR A2+	IVR A2+		

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:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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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 Fund Based Facilities - Cash Credit	-	-	-	15	IVR A- /Stable (IVR Single A Minus with Stable Outlook)
Short Term Non Fund Based Facilities - Bank Guarantee	-	-	-	25	IVR A2+ (IVR A Two Plus)