

**Sri Venkateshwar Engineering Contractors**

**Brickwork Ratings revises/reaffirms the ratings for the Bank Loan Facilities of Rs. 22.05 Crores of Sri Venkateshwar Engineering Contractors (or ‘the firm’)**

**Particulars:**

Facility**	Amount (Rs Crs)		Tenure	Rating*	
	Previous	Present		Previous (Dec 2019)	Present
<b>Fund Based</b>	<b>9.00</b>	<b>16.05</b>	<b>Long Term</b>	<b>BWR C ISSUER NOT COOPERATING*</b>	<b>BWR B+/Stable (Upgraded)</b>
<b>Non Fund Based</b>	<b>3.00</b>	<b>6.00</b>	<b>Short Term</b>	<b>BWR A4 ISSUER NOT COOPERATING*</b>	<b>BWR A4 (Reaffirmed)</b>
<b>Total</b>	<b>12.00</b>	<b>22.05</b>	<b>Rupees Twenty Two Crores and Five Lakhs Only</b>		

\*Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for definition of the ratings

\*\* Details of Bank facilities is provided in Annexure-I

**Rating Action/Outlook**

The long term rating revision and reaffirmation of short term rating has factored the experience of the promoters in the civil construction industry, established track record of the firm in the business and its above average financial risk profile marked by healthy profit margins, satisfactory capital structure and adequate debt protection metrics. The rating has also factored in the revenue visibility of the firm with order book position of Rs. 168.12 Cr in hand. The rating, however, is constrained by the small scale of operations of the firm, its tender based nature of operations, exposure to customer concentration risk and partnership constitution.

The ‘Stable’ outlook indicates a low likelihood of rating change over the medium term. BWR expects that the business risk profile of the firm will be maintained over the medium term. The rating outlook may be revised to ‘Positive’ in case the firm enhances its revenue scale and enhanced scale of operations is being maintained on a sustained basis while improving its financial risk profile further. The rating outlook may be revised to ‘Negative’ if the revenues go down and profit margins show lower than the expected figure or any deterioration in the financial risk profile.

### Key Rating Drivers

BWR has principally relied upon the audited financial results up to FY20, projected financials of FY21 and FY22, publicly available information and information/clarification provided by the concern's management.

### Credit Strengths:

- **Experience promoter:** Mr. Sellapan is the main promoter of the firm and has more than three decades of experience in undertaking EPC projects for civil and electrical work. His understanding of civil and electrical business operations supports the firm in acquiring tenders from the government. Another partner, Mr. Dinesh (son of Mr. Sellapan), is an engineering graduate and has more than a decade of experience in the industry.
- **Established operational track record:** The firm has been engaged in civil and electrical contracting business since 1986. It acquires projects by bidding orders from the Government and primarily caters to the PWD, Tamil Nadu. The firm has been associated with its client for a long time and successful execution of the acquired projects has helped in getting repeat orders.
- **Financial risk profile:** Profit margins are healthy and have improved from an operating profit margin of 8.32% in FY19 to 9.69% in FY20 and net profit margin of 5.19% in FY19 to 5.32% in FY20. With year on year retention of profits, the networth of the firm stood satisfactory with Rs. 9.50 Cr as on 31st March 2020 and with low debt level, has low gearing of 0.39 times. The gearing is expected to deteriorate in FY21 with sanction of project specific working capital facilities in view of contracts in hands, however, remains comfortable at less than 1.00 times. The debt protection metrics, though declined, stood adequate with ISCR of 2.05 times and DSCR of 2.25 times.
- **Revenue visibility:** The order book position of ~Rs. 168.29 Cr, which is to be executed in next one year, indicates a medium term revenue visibility for the firm.

### Credit Risks:

- **Small scale of operation:** The firm has a small scale of operations with an average revenue of Rs. 29.33 Cr in the last three financial years. Also, the revenue has declined from Rs. 37.88 Cr in FY18 to Rs. 25.42 Cr and then a marginal decline to Rs. 24.70 Cr in FY20.
- **Tender based nature of operations and customer concentration risk:** The business operations of the firm is tender based and thus limits the operating margin to a moderate level. It primarily deals with a single client and is exposed to customer concentration risk which has resulted in fluctuated revenue level as it depends on the amounts of tenders issued by the client in the market. Further, the client is a government body, resulting in high dependence on timely clearances for tenders and payments, as reflected from

increasing receivable positions of the firm from Rs. 3.10 Cr in FY18 to 3.70 Cr in FY19 to Rs. 6.05 Cr in FY20.

- **Limitation of partnership concern:** Being a partnership concern, it is exposed to inherent risk of withdrawal of capital by the partners which may impact the overall capital structure and debt metrics of the concern.

### **Analytical Approach and Applicable Rating Criteria**

For arriving at its ratings, BWR has considered the standalone performance of Sri Venkateshwar Engineering Contractors and has applied its rating methodology as detailed in the Rating Criteria (hyperlinks provided at the end of this rationale)

### **Rating Sensitivities**

#### **Positive:**

- Consistency in order inflow which would provide the revenue visibility on a sustained basis.
- Improvement in scale of operations while maintaining the overall financial risk profile and working capital cycle at satisfactory level.
- Improvement in customer concentration risk by diversifying the clientele.

#### **Negative:**

- Delays in execution of ongoing projects adversely impacting the operating performance.
- Any deterioration in financial risk profile due to increase in debt levels.
- Further deterioration in receivable position.

### **Liquidity Position**

Average liquidity position as indicated by increasing working capital requirement with growing business and increasing receivable position. The cash accruals to total debt has declined from 12.05 times in FY19 to 0.41 times in FY20 due to increased debt level and is expected to remain at the same level, though stood adequate considering the modest repayments and moderate bank limit utilisations. As per the banker feedback, the utilisation of the working capital facilities is ~7.00% at present. Current ratio stood at 2.08 times in FY20.

### **Profile of the firm**

Sri Venkateshwar Engineering Contractors was established as a partnership firm in 1986, based in Namakkal, Tamil Nadu. The firm is engaged in the business of civil and electrical contracting, mainly from the Government of Tamil Nadu. Partners of the firm are Mr. Sellapan, Mr. S Dinesh and Mr. S Rajesh.

### Key Financial Indicators

Key Parameters	Units	FY19	FY20
Result Type		Audited	Audited
Total Operating Income	Rs Crs	25.42	24.70
EBITDA	Rs Crs	2.12	2.39
PAT	Rs Crs	1.32	1.31
Tangible Net worth	Rs Crs	8.20	9.50
Total Debt/Tangible Net worth	Times	0.01	0.39
Current Ratio	Times	22.32	2.08

**Key Covenants Of The Instrument/Facility Rated: None**

**Non-cooperation With Previous Rating Agency: None**

### RATING HISTORY FOR THE PREVIOUS THREE YEARS [including withdrawal and suspended]

Facilities	Current Rating (2020)			Rating History		
	Tenure	Amount (Rs Crs)	Rating	23.12.2019	2018	19.04.2017
Fund Based	Long Term	16.05	<b>BWR B+/Stable</b>	BWR C ISSUER NOT COOPERATING	-	BWR B-/Stable
Non Fund Based	Short Term	6.00	<b>BWR A4</b>	BWR A4 ISSUER NOT COOPERATING	-	BWR A4
Total		22.05	Rupees Twenty Two Crores and Five Lakhs Only			

*Note: The rating was moved under 'Rating Not Reviewed' in Aug 2018.*

### Complexity Levels of the Instruments

For more information, visit [www.brickworkratings.com/download/ComplexityLevels.pdf](http://www.brickworkratings.com/download/ComplexityLevels.pdf)

### Hyperlink/Reference to applicable Criteria

- **General Criteria**
- **Approach to Financial Ratios**
- **Infrastructure Sector**

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### Sri Venkateshwar Engineering Contractors

#### ANNEXURE I

#### Details of Bank Facilities rated by BWR

S. No.	Name of the Bank	Type of Facilities	Long Term (Rs Crs)	Short Term (Rs Crs)	Total (Rs Crs)
1.	Indian Bank	SOD II*	8.50	-	8.50
2.		SOD I	6.50	-	6.50
3.		Covid Emergency TL	0.49	-	0.49
4.		WCTL IND GECLs	0.56	-	0.56
5.		Performance Bank Guarantee	-	3.00	3.00
6.		Performance Guarantee*	-	3.00	3.00
<b>TOTAL</b>					<b>22.05</b>

**Total Rupees Twenty Two Crores and Five Lakhs Only**

*\*The facilities are project specific facilities*

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