

Theme Engineering Services Private Limited

September 24, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	55.00 (Enhanced from 45.00)	CARE BBB+; Stable	Reaffirmed

Details of facilities in Annexure -1

Rationale and key rating drivers

The rating assigned to the bank facilities of Theme Engineering Services Private Limited (TESPL) continues to derive strength from its established track record of operations in the engineering & project consultancy services, qualified management and healthy order book comprising reputed clientele. The rating also continues to factor in healthy albeit moderated profitability in FY24 (Provisional; FY refer to period from April 01 to March 31), and absence of external debt leading to comfortable capital structure and debt coverage indicators as well as adequate liquidity.

The rating, however, continues to remain constrained on account of TESPL's moderate scale of operations, elongation in collection period along with competition from other established players in infrastructure consultancy business and requirement of stringent qualifying parameters while awarding large-sized consultancy projects.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Continued growth in its scale of operations while maintaining steady profitability
- Realization of the debtors of over one year leading to significant improvement in gross current asset days on a sustained basis

Negative factors

- Significant decline in the total operating income (TOI) on a sustained basis due to lower inflow of new orders
- Any adverse action taken by any authority including blacklisting or levy of penalty
- Significant decline in operating profitability on a sustained basis
- Any significant deterioration in gross current asset days on a sustained basis leading to deterioration in liquidity position of the company

Analytical approach: Standalone

Outlook: Stable

The 'Stable' outlook reflects CARE Ratings' expectation that the entity will continue to benefit from its established track record of operations with healthy order book on hand providing medium term revenue visibility and relatively low counterparty credit risk in the order book

Detailed description of the key rating drivers

Key strengths

Established track record of operations in providing diversified services, healthy order book position and reputed clientele

TESPL is in consulting business for more than two decades and has worked on various assignments for National Highway Authority of India (NHAI; rated CARE AAA; Stable), Ministry of Road Transport & Highways (MORTH), and various State Highway Authorities. TESPL has specialization across a diverse range of infrastructure consulting like pre-feasibility studies, feasibility studies, site investigations, project planning, detailed engineering design, project management services and construction supervision. TSEPL had an outstanding order book of Rs.340 crore as on August 31, 2024 [PY: Rs.299 crore as on September 30, 2023] indicating orderbook to sales ratio of 2.20x for FY24 [PY: 1.72x], thus providing medium term revenue visibility. The entire outstanding order book position of the company is from various government authorities such as NHAI, MORTH and various state government's public work department thus mitigating counter party credit risk to a large extent. The average duration of the projects is in the range of 12-48 months. Furthermore, majority of the outstanding order book position of the company has price escalation clause.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications.

Healthy profitability albeit moderate scale of operations

The company is operating in a highly competitive tender driven business; hence, its scale of operations is dependent on the numbers of contracts secured and orders executed during the year. TESPL's TOI decreased by 10% Y-o-Y to Rs.155 crore in FY24 owing to windup of many projects in FY23 itself which led to limited number of projects scheduled for execution during FY24. Operating margin of the company marked by its PBILDT margin declined by 512 bps Y-o-Y due to lower absorption of fixed cost i.e. employee cost and consultancy/professional fees, though it continued to remain healthy at 15.29% in FY24. Consequently, PAT margin of the company also declined by 662 bps Y-o-Y to 7.77% in FY24.

Comfortable capital structure and debt coverage indicators

TESPL's capital structure remained comfortable as it remained debt free as on March 31, 2024. Further, its tangible net worth base augmented on the back of healthy accretion of profits into reserves over the years and remained moderate at Rs.181 crore as on March 31, 2024 [PY: Rs.164 crore]. Total outside liabilities to tangible net worth (TOL/TNW) of the company also remained comfortable at 0.36x as on March 31, 2024 which was in line with the previous year.

The debt coverage indicators of the company deteriorated in tandem with operating profitability, though it continued to remain comfortable due to minimal reliance on debt. TESPL reported PBILDT interest coverage of 19.34x [PY: 55.19x] and nil total debt to gross cash accruals (TDGCA) in FY24.

Experienced and professionally qualified management

TESPL is promoted by Tarun Rawat, a civil engineer with more than two decades of experience in the industry. TESPL has a team of specialist for design, project preparation, documentation, survey, geo tech investigations in roads and bridges projects, construction management, quality control, financial and economical analysis for the works of highways & bridges. Rawat is ably supported by the experienced professionals from various government departments, private organization, as well as academicians from reputed universities.

Key weaknesses

Working capital intensive nature of operations

The operations of TESPL are working capital intensive due to stretched receivable position and retention money clause present in majority of the orders. Operating cycle elongated from 110 days in FY23 to 163 days in FY24 on the back of elongation in collection period from 198 days in FY23 to 254 days in FY24 due to high billing i.e.Rs.36 crore in March 2024. The receivables are from Government authorities like NHAI, MoRTH or state PWDs and hence the credit risk remains low. The gross current asset days (excluding liquid investments) of the company also remained high at 518 days (FY23: 425 days) in FY24.

High competitive intensity of the infrastructure consultancy business

The engineering consultancy industry in India is fragmented in nature with the presence of multiple players. The engineering consultancy in India faces intense competition from local and national players in the industry, including large and established companies as well as emerging players. The competition is increased by the entry of foreign players into the infrastructure consultancy industry. Being tender-based business, the revenues are dependent on the company's ability to bid successfully for these tenders. Profitability margins come under pressure because of this competitive nature of the industry. However, the promoter's long industry experience and the company's diversification into different segment mitigates this risk to an extent.

Large-sized infrastructure consultancy projects are awarded based on stringent qualifying parameters

The majority of large-size infrastructure consultancy projects are awarded based on strict quantitative and qualitative parameters such as financial strength, past track record, expertise and strength of technical staff of the consultancy firm. Moreover, TESPL is required to retain technically qualified personnel in its key management team in order to be eligible for bidding for large-size projects. This may result into higher employee cost and could affect the profitability of the company.

Liquidity: Adequate

TESPL's liquidity remained adequate marked by sizable liquid funds and moderate cash accruals against nil scheduled debt repayment obligation.

TESPL's current ratio remained comfortable at 3.43x with continued holding of sizable liquid funds to the tune of Rs.100 crore as on March 31, 2024 [PY: Rs.88 crore] including unencumbered cash and bank balance of Rs.13 crore, mutual fund investments of Rs.72 crore and margin money of Rs.14 crore. The company does not utilize any fund based working capital limits, though it uses non-fund-based working capital limit to participate in the tenders and the average utilization of the same remained moderate at ~72% for last 12 months ended August 2024. The company continued to report positive CFO of Rs.8 crore in FY24, though it reduced from Rs.20 crore in FY23 in tandem with decrease in operating profit. The company reported cash accruals of Rs.14 crore in FY24 as against nil scheduled debt repayment obligations during same period.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks: Not applicable

Applicable criteria:

[Definition of Default](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

[Financial Ratios – Non financial Sector](#)

[Service Sector Companies](#)

About the company and industry

Industry classification

Macro-economic indicator	Sector	Industry	Basic industry
Services	Services	Commercial services & supplies	Consulting services

TESPL was incorporated during 2002 by Tarun Rawat. TESPL is a civil engineering multi-disciplinary consultancy services company. TESPL provides various services such as design, project preparation, documentation, survey, geo tech investigations, construction management and quality control related to public utilities, community services, industrial facilities as well as infrastructure projects. The company caters to diverse range of infrastructure projects that include highways, bridges, town planning, environmental projects, water supply, sanitation & solid waste management, major and minor irrigation projects, buildings, geo-technical investigations, laboratory testing and field surveys.

Brief Financials (₹ crore)	FY23 (A)	FY24 (UA)	Q1FY25 (UA)
Total operating income	171.50	154.58	23.37
PBILDT	35.00	23.64	4.63
PAT	24.69	12.01	NA
Overall gearing (times)	0.00	0.00	NA
Interest coverage (times)	55.19	19.34	NA

A: Audited; UA: Unaudited; NA: Not Available. Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: CRISIL vide its PR dated January 15, 2024 has continued the rating of TESPL under 'Issuer Not Cooperating category' in absence of adequate information.

ACUITE vide its PR dated September 06, 2023 has continued the rating of TESPL under 'Issuer Not Cooperating category' in absence of adequate information.

Any other information: Not applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated facility: Detailed explanation of covenants of the rated facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Non-fund-based - LT-BG/LC	-	-	-	-	55.00	CARE BBB+; Stable

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Non-fund-based - LT-BG/LC	LT	55.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (04-Dec-23)	1)CARE BBB+; Stable (04-Oct-22)	1)CARE BBB+; Stable (07-Jul-21)

LT: Long term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not applicable**Annexure-4: Complexity level of the various instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Non-fund-based - LT-BG/LC	Simple

Annexure-5: Lender detailsTo view the lender wise details of bank facilities please [click here](#)

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:

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