

Press Release

Lustre Engineering Corporation

12 February, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 9.50 Cr
Long Term Rating	SMERA B/Stable (Suspension Revoked, Rating Assigned)
Short Term Rating	SMERA A4 (Suspension Revoked, Rating Assigned)

*Refer Annexure for details

Rating Rationale

SMERA has revoked the suspension of rating and assigned long-term rating of '**SMERA B**' (**read as SMERA B**) and short-term rating of '**SMERA A4**' (**read as SMERA A four**) on the Rs. 9.50 crore bank facilities of Lustre Engineering Corporation (LEC). The outlook is '**Stable**'.

SMERA had on February 5, 2016 suspended the rating for lack of necessary information from LEC. The firm has now shared the requisite information, enabling SMERA to assign a rating to the bank facilities.

LEC was initially established as a proprietorship concern by Mr. B. L. Patharkar in 1951. Subsequently in the year 2002, LEC was reconstituted as a partnership firm with Mr. Vikas Patharkar and Mrs. Himangi Patharkar as partners. The firm is based in Mumbai and engaged as an electrical contractor undertaking maintenance and repair of power lines and installation of substations on a turnkey basis. The firm mainly caters to government entities in the power sector. LEC has also started manufacture & maintenance of transformers in the nature of overhauling from 2014.

List of key rating drivers and their detailed description

Strengths:

Established track record of operations and experienced promoters

The firm has established track record of operations of more than six decades as an electrical contractor. The established presence has helped the firm maintain long standing relation with reputed clientele including Maharashtra State Electricity Transmission Company Limited (MSETCL), National Thermal Power Corporation Limited (NTPC), Power Grid Corporation of India, Tata Power Company Limited and Gujarat Energy Transmission Corporation Limited (GETCO) etc. The firm also benefits from the extensive experience of its promoter i.e. Mr. Vikas Patharkar, an electrical engineer by qualification and Mrs. Himangi Patharkar who collectively possesses more than three decades of experience in the same line of business.

Moderate financial risk profile

LEC has moderate financial risk profile marked by gearing (debt-to-equity) of 0.62 times as on 31 March, 2017 against 0.92 times as on 31 March, 2016. The total debt of Rs.7.43 crore comprises short term borrowings to the tune of Rs.3.85 crore, long term borrowings of Rs. 1.52 crore and unsecured loan raised through relatives of Rs.2.06 crore. Further, the Interest Coverage Ratio (ICR) stood at 2.81 times for FY2017 against 1.08 times for FY2016.

Weaknesses:

Small Scale of operations

LEC has small scale of operations marked by operating income of Rs.9.67 crore for FY2017 as against Rs.6.38 crore for FY2016 and Rs.4.00 crore for FY2015. This on account of intense competition among electrical contractors and tender based operations as the firm mainly caters to government entities in the power sector. Further, as informed by the management the firm has reported operating income of ~Rs.2.51 crore during April, 2017 to November, 2017 and has an order book position of Rs. 3.00 crore.

Working capital intensive operations

The operations are working capital intensive marked by high Gross Current Asset (GCA) days of 370 for FY2017 as against 503 for FY2016. As the firm mainly caters to government entities, the work is required to be inspected before receiving the completion certificate leading to high amount of inventory during the year end i.e. 340 days for FY2017 as against 230 days in the previous year.

Further, the firm needs to maintain high amount of security deposit, earnest money and retention money as part of its operations leading to elongated operating cycle. The liquidity of the firm is also stretched with bank limits being fully utilised during the last six months ended as on 30 November, 2017.

Analytical approach:

SMERA has considered the standalone business and financial risk profiles of Lustre Engineering Corporation.

Outlook: Stable

SMERA believes that the outlook on LEC's rated facilities will remain stable over the medium term on account of established operational record and extensive experience of the promoters in the power industry. The outlook may be revised to 'Positive' in case the firm registers significant growth in revenue while maintaining adequate profitability and comfortable liquidity position. Conversely, the outlook may be revised to 'Negative' in case of steep decline in revenue and profitability or further elongation in working capital cycle resulting in deterioration in the financial risk profile of the firm.

About the Rated Entity -Key Financials

Particulars	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	9.67	6.38	4.00
EBITDA	Rs. Cr.	4.09	1.10	0.29
PAT	Rs. Cr.	0.77	-1.06	-2.34
EBITDA Margin	(%)	42.26	17.30	7.36
PAT Margin	(%)	7.95	-16.64	-58.45
ROCE	(%)	8.07	-0.20	-6.97
Total Debt/Tangible Net Worth	Times	0.63	0.92	1.01
PBDIT/Interest	Times	2.81	1.08	0.31
Total Debt/PBDIT	Times	1.82	8.70	33.80
Gross Current Assets (Days)	Days	370	503	654

Applicable Criteria

- Infrastructure Entities - <https://www.smera.in/criteria-infrastructure.htm>
- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Application of Financial Ratios and Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Status of non-cooperation with previous CRA (if applicable): Not Applicable

Any other information: Not Applicable

Rating History for the last three years: Not Applicable

Date	Name of Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
5 Feb, 2016	Cash Credit	Short Term	3.00	SMERA B-/Stable (Suspended)
	Term Loan	Short Term	4.00	SMERA B-/Stable (Suspended)
	Working Capital Demand Loan	Short Term	2.75	SMERA A4 (Suspended)
	Bank Guarantee	Short Term	2.75	SMERA A4 (Suspended)
12 Nov, 2014	Cash Credit	Short Term	3.00	SMERA B-/Stable (Assigned)
	Term Loan	Short Term	4.00	SMERA B-/Stable (Assigned)
	Working Capital Demand Loan	Short Term	2.75	SMERA A4 (Assigned)
	Bank Guarantee	Short Term	2.75	SMERA A4 (Assigned)

*Annexure – Details of instruments rated:

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.00	SMERA B/ Stable (Assigned)
Term Loan	Not Applicable	Not Applicable	Not Applicable	1.32	SMERA B/ Stable (Assigned)
Working Capital Term Loan	Not Applicable	Not Applicable	Not Applicable	0.50	SMERA A4 (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	2.00	SMERA B/ Stable (Assigned)
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.68	SMERA B/ Stable (Assigned)

Note on complexity levels of the rated instrument:

<https://www.smera.in/criteria-complexity-levels.htm>

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ABOUT SMERA

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