

Press Release

S M Electric Works (SME)

06 July, 2017



Rating Assigned

Total Bank Facilities Rated*	Rs.20.00 Cr
Long Term Rating	SMERA BB-/Stable (Assigned)
Short Term Rating	SMERA4+(Assigned)

*Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BB-**' (**read as SMERA BB minus**) and short term rating of '**SMERA A4+**' (**read as SMERA A four plus**) on the Rs. 20.00 crore bank facilities of S M Electric Works (SME). The outlook is '**Stable**'

SME is a Maharashtra-based proprietary concern promoted by Mr. S M Saraf. The firm undertakes electrical contracts for maintenance and repair of power lines, installation of substations on turnkey basis and overhauling of transformers. The nature of business is tender based.

Key Rating Drivers

Strengths

Established track record of operations and experienced management: SME was established in 1991. The promoter, Mr. Sunil Saraf has more than three decades of experience in the said line of business.

Growth in revenue Y-o-Y: The operating income stood at Rs.25.14 crore in FY2016 as against Rs.10.15 crore in FY2015 and Rs.8.29 crore in FY2014. The firm registered operating income of Rs.28.24 crore in FY2017 (Provisional). The revenue growth is on account of improved work order position. Further, SME has unexecuted order book of Rs.50.00 crore that provides revenue visibility for the medium term.

Weaknesses

Uneven trends in profitability: The operating margin stood at 7.78 percent and PAT (profit after tax) margin at 3.78 percent in FY2017 (Provisional) as against operating margin of 19.02 percent and PAT margin of 9.62 percent in FY2016. The profitability remains uneven due to the tender based business.

Average financial risk profile: SME has average financial risk profile marked by relatively high gearing and moderate coverage indicators. The gearing (Debt-to-equity) stood at 1.63 times as on 31 March, 2017 as against 2.02 times as on 31 March, 2016. The debt protection metrics stood moderate with Interest coverage ratio (ICR) at 1.93 times and NCA/ TD at 0.09 times for FY2017 (Provisional) against ICR of 1.79 times and NCA/ TD of 0.07 times for FY2016. Further, the tangible networth stood at Rs.7.02 crore as on 31 March, 2017.

Working capital intensive operations: SME has working capital intensive operations marked by GCA (gross current assets) of 139 days for FY2017 as against 323 days of FY2016. The GCA days

improved mainly on account of inventory days of 38 for FY2017 (Provisional) against 156 days for FY2016. The WCC (working capital cycle) days stood at 91 for FY2017 (Provisional) as against 96 days for FY2016. Further, the average utilisation of working capital borrowing stood at ~90.00 percent.

Tender based business: SME operates in a highly competitive and fragmented industry. The business is largely tender based.

Analytical Approach: SMERA has considered the standalone business and financial risk profile of SME.

Outlook: Stable

SMERA believes that the outlook on SME's rated facilities will remain stable over the medium term. The outlook may be revised to 'Positive' if the firm achieves sustained growth in revenues and profitability, improvement in financial risk profile or liquidity position. Conversely, the outlook may be revised to 'Negative' in case of steep decline in revenues, profitability, or if the firm experiences stretch in working capital cycle or the capital structure worsens.

About the Rated Entity - Key Financials

For FY2016-17, the firm reported profit after tax (PAT) of Rs.1.07 crore on operating income of Rs.28.24 crore, compared with net profit of Rs.0.88 crore on operating income of Rs.25.14 crore in FY2015-16. The net worth stood at Rs.7.02 crore as on 31 March, 2017 as against Rs.7.25 crore a year earlier.

Status of non-cooperation with previous CRA- Not Applicable

Any other information: Not Applicable

Applicable Criteria:

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

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Not Applicable

***Annexure - Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	7.50	SMERA BB- / Stable
Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	10.00	SMERA A4+
Proposed Letter of Credit	Not Applicable	Not Applicable	Not Applicable	2.50	SMERA A4+

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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