

Press Release

Shree Shami Engineering

June 21, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 8.00 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable
Short Term Rating	Acuite A4

* Refer Annexure for details

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE BB-**' (read as **ACUITE double B minus**) and short term rating of '**ACUITE A4**' (read as **ACUITE A four**) on the Rs.8.00 crore bank facilities of Shree Shami Engineering (Shami). The outlook is '**Stable**'.

Shree Shami Engineering (Shami) was set up in 1994 by Mrs. Annapoorna as a proprietary concern. Shami is engaged in manufacture of stator frames, end shields, radial fan, stator core clamp, exciter frame stool, cover plate base frame parts, and turbine parts. They are used in steam/hydro/gas/wind turbine generators. Shami has one manufacturing unit located at Peenya Industrial Area in Bangalore.

Key Rating Drivers

Strengths

Extensive experience of promoter and relations with reputed clients

The proprietor, Mrs. Annapoorna, has nearly 3 decades of extensive experience in the machine component industry. The promoter is involved in the functional areas of the business. The extensive experience of the promoter has also resulted in established relationships with reputed players like TD Power Systems Ltd. and Triveni Turbines Ltd. The firm is also in negotiation with various other players for supply of components in the turbine generator segment. The firm's first unit is majorly dedicated to TD Power Systems Ltd; as the same is highly utilised and Shami is expanding its reach to other clientele. The firm has taken up a capex to construct a new facility at Dobaspet in Bengaluru (Rural). The new facility is likely to be operational by September 2018.

High capacity utilisation and improving economic / industrial activity supported the increase in revenues to about Rs.22.8 crore (Provisional) in FY2018. The revenue growth is at a compound annual growth rate (CAGR) of 70 percent over four years through FY2018. Growth is primarily driven on account of moderate capex of about Rs.3.50 crore. The firm, in FY2017, had done renovation and expanding the capacity at its first unit. Shami has an outstanding order book of about Rs.10.00 crore as of April 30, 2018 for deliverables in the next 3-6 months which gives adequate revenue visibility. Acuite believes that the firm's longstanding presence and promoter's client relationship is expected to support in improving the business risk profile of the firm over the medium term.

Weaknesses

Weak financial risk profile

The firm's financial risk profile is marked by modest net worth, high total outside liabilities to total net worth (TOL/TNW) though underpinned by moderate debt protection metrics and gearing (debt-to-equity). The net worth is modest at about Rs.4.00 crore (Provisional) as of March 31, 2018, which is low on account of modest accretion to reserves and low revenue profile in the past till FY2017. TOL/TNW is high at 4.2 times (Provisional) as of March 31, 2018. In the past, it was oscillating around 3-4 times due to high working capital intensive operations and major reliance on trade suppliers besides bank debt. The gearing is moderate at 1.6 times as of March 31, 2018 (Provisional). The debt protection metrics

such as interest coverage ratio (ICR) and net cash accruals to total debt (NCA/TD) are moderate at 2.25 times and 0.16 times respectively for FY2017. Acuite believes that the financial risk profile is expected to be at similar levels on the back of increasing revenue profile, continued investment on the plant for expansion over the medium term.

Working capital intensive operations

The operations are working capital intensive as marked by Gross Current Assets (GCA) of 297 days as on March 31, 2017; though the same moderates to 250 days (Provisional) as of March 31, 2018. They are expected to be at similar levels due to the time taken for manufacture, staggered deliverables to its clientele. The inventory days over the past four years have been over 250 days. As a result, its working capital limits though moderate have been highly utilised at about 93 percent for six months through March 31, 2018 (Provisional). Acuite believes that the operation of Shami continues to be working capital intensive due to the industry nature, and increasing scale of operations.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of Shami.

Outlook: Stable

Acuite believes that Shami will maintain a 'Stable' outlook in the medium term on account of experienced Partners and healthy relations with its clientele. The outlook may be revised to 'Positive' in case the firm reports higher-than-expected revenues, while diversifying its clientele and improving the profitability. Conversely, the outlook may be revised to 'Negative' in case of any sharp decline in its revenues owing to client and revenue concentration or stretch in the working capital cycle impacting the revenue and financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	10.40	7.71
EBITDA	Rs. Cr.	1.14	0.79
PAT	Rs. Cr.	0.37	0.28
EBITDA Margin	(%)	10.97	10.21
PAT Margin	(%)	3.53	3.61
ROCE	(%)	15.09	14.35
Total Debt/Tangible Net Worth	Times	1.25	1.44
PBDIT/Interest	Times	2.25	2.11
Total Debt/PBDIT	Times	3.53	3.18
Gross Current Assets (Days)	Days	297	379

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/criteria-fin-ratios.htm>
- Manufacturing entities- <https://www.acuite.in/criteria-manufacturing.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.75	ACUITE BB-/Stable (Assigned)
Term Loans	Not Applicable	Not Applicable	Not Applicable	1.21	ACUITE BB-/Stable (Assigned)
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.25	ACUITE BB-/Stable (Assigned)
Proposed long term loan facility	Not Applicable	Not Applicable	Not Applicable	3.29	ACUITE BB-/Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE A4 (Assigned)

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About Acuité Ratings & Research:

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