

Press Release

Sree Lakshmi Electrical Services

August 06, 2019

Rating Assigned



Total Bank Facilities Rated*	Rs. 25.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable
Short Term Rating	ACUITE A3

* Refer Annexure for details

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and short term rating of '**ACUITE A3**' (read as **ACUITE A three**) on the Rs. 25.00 crore bank facilities of SREE LAKSHMI ELECTRICAL SERVICES. The outlook is '**Stable**'.

Sree Lakshmi Electrical Services (SLES) was established in the year 2003 as a proprietorship concern, promoted by Mr. Chandra Mohan Reddy. It was reconstituted as a partnership firm in June 2013. Mr. Chandra Mohan Reddy is the Managing Partner, while his spouse, Mrs. Sowbhagya Lakshmi is the other partner of the firm. The firm is an electrical contractor and is a registered Class I contractor with the Government of Telangana, Andhra Pradesh, and Karnataka.

Analytical Approach

Acuite has taken standalone view of business and financial risk profile of SLES to arrive at the rating.

Key Rating Drivers

Strengths

• Experienced Management

Established in 2003, SLES is engaged in executing turnkey electrical projects for various Government departments of Andhra Pradesh (GoAP), Telangana (GoTS), and Karnataka. The firm is a registered class I contractor with different states and local governing bodies. Apart from working with Transmission Corporations of Telangana and Andhra Pradesh, various power distribution companies (Discoms) of GoAP, GoTS, Karnataka and other states, they also execute on sub-contract basis for large players like L&T, Ashok Buildcon Ltd, Dilip Buildcon Ltd among others. The timely execution of the projects helped the firm in improving its market presence, besides continued business from its reputed clientele. This resulted in healthy compound annual growth rate (CAGR) of about 38.43 per cent over the last five years. The entity reported revenues of Rs.96.70 crore in FY2019 as compared to Rs.105.06 crore in FY2018 and Rs.53.98 crore in FY2017. As of June 2019, SLES has an unexecuted order book position of Rs.174.72 crore; the same are for completion over 24 months. Further, SLES has participated in various tenders valued at about Rs.79.00 crores, which gives adequate revenue visibility over the medium term. Acuite believes that SLES's domain expertise continues to support in repeat business from Corporates, while long track record of operations is expected to support in winning bidding nature of Government business.

• Comfortable financial risk profile

SLES's financial risk profile is moderate marked by moderate net worth, healthy gearing (debt-to-equity), and comfortable total outside liabilities to total net worth (TOL/TNW) and moderate debt protection metrics. SLES's net worth is moderate at Rs.14.28 crore as on March 31, 2019(provisional) as compared to Rs.10.87 crore as on March 31, 2018. Gearing is healthy at 0.21 times as on March 31, 2019 improved from 0.41 times in FY2017. TOL/TNW is comfortable at 1.66 times in FY2019 vis-à-vis 3.63 times in FY2017. Its debt protection metrics are moderate marked by interest coverage ratio (ICR) and net cash accruals to total debt (NCA/TD) at 10.07 times and 1.25 times in FY2019 (provisional) vis-à-vis 6.72 times and 0.99 times in FY2018, respectively. With comfortable cash accruals expected in the range of Rs.5-7 crore over the medium term, its repayment obligations are negligible. Acuite believes that with expected improvement in revenues and growth in profitability, the financial risk profile is expected to improve further over the medium term.

Weaknesses

- **Moderate working capital operations**

SLES's operations are moderate as evident from Gross Current Assets (GCA) of 117 days as on March 31, 2019 as against 203 days as on March 31, 2018. Receivable days are reported at FY19: 42 days as against FY18:170 days and its inventory days are below 50 days for the past three years due to regular billing. SLES's creditors which are high at about 66 days as on March 31, 2019 (FY2018:278 days). Moderate inventory levels and funded projects lead to moderate utilisation of its limits at about 75 per cent over the past six months ended March, 2019. However, Acuite believes that with the increasing scale of operations, the working capital requirements are expected to increase and reliance on external debt is expected to increase over the medium term.

- **Highly competitive and fragmented industry with tender based nature of business for electrical construction works**

SLES operates in highly competitive and fragmented industry with presence of several players and tender nature of business. Winning of the contracts in tender-based model is subject to various parameters including importance of the project for the principal to ensure timely and regular payments. Also, it enjoys the operational advantage and timely completion of the projects leading to securing business from corporates regularly. SLES is into mid-size projects, wherein the competition is moderate vis-à-vis high or low value projects. However, the risk becomes more pronounced as tendering is based on minimum amount of bidding on contracts, and susceptibility to inherent cyclicity in the works and private investment in case of non-government projects. Also, site clearance issues of evacuation, movement of public infrastructure (electrical, telephone, water pipelines among others) poses risk of delay in project execution, and thus impacting the revenues.

- **Risks associated with partnership nature of the firm**

Partnership nature of operations is always prone or exposed to the possibility of withdrawal of capital by the partners on need basis, which is not the case with corporate entities. Any significant capital withdrawal could lead to cash flow mismatches, and thus remains sensitivity for maintenance of credit risk profile.

Liquidity Position

Liquidity of SLES is adequate marked by moderate cash accruals to its repayment obligations. SLES reported cash accruals in the range of Rs.3.50-4.00 crore over the past two years through FY2019 against which there are no repayment obligations. SLES's cash accruals are estimated to remain around Rs.4.00 - 5.50 crore during 2010-22, while its repayment obligations are nil; which gives adequate comfort for the incremental working capital requirements. SLES's operations are moderately working capital intensive as marked by gross current asset (GCA) days of 117 in FY2019. Moderate accruals led to moderate reliance on working capital borrowings. Its cash credit limits were moderately utilised at about 75 per cent during the last six months period ended June 2019. Further, it has free cash and bank balance of Rs. 1.50 crore as on March 31, 2019 and Rs.1.79 crore fixed deposits FY2019. Acuite believes that though cash accruals are adequate, however, incremental working capital requirement for the growing size of operations are expected to absorb the cushion in the liquidity, though expected to continue at adequate levels.

Outlook: Stable

Acuite believes that SLES will maintain a 'Stable' outlook over the medium term backed by its experienced management and adequate revenue visibility. The outlook may be revised to 'Positive' in case of significant improvement in its revenues, while maintaining the profitability margins. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital management or larger-than-expected debt-funded capital expenditure or any significant withdrawal of capital leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	96.70	105.06	53.98
EBITDA	Rs. Cr.	6.02	6.38	3.34
PAT	Rs. Cr.	3.79	3.56	1.83
EBITDA Margin	(%)	6.22	6.07	6.18
PAT Margin	(%)	3.92	3.39	3.38
ROCE	(%)	37.76	50.43	34.28
Total Debt/Tangible Net Worth	Times	0.21	0.34	0.41
PBDIT/Interest	Times	10.07	6.72	5.97
Total Debt/PBDIT	Times	0.50	0.56	0.93
Gross Current Assets (Days)	Days	117	203	187

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

None

Any other information

Not applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Entities In Services Sector - <https://www.acuite.in/view-rating-criteria-8.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-14.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.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. Cr.)	Ratings/Outlook
Overdraft	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE BBB- / Stable
Proposed Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BBB- / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	12.50	ACUITE A3
Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	7.50	ACUITE A3

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