

Press Release

Sree Lakshmi Electrical Services

February 26, 2021

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 45.00 Cr. (Enhanced from Rs.30.00 Cr)
Long Term Rating	ACUITE BBB- / Outlook: Stable (Reaffirmed)
Short Term Rating	ACUITE A3 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed its 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. 45.00 Cr bank facilities of Sree Lakshmi Electrical Services (SLES). The outlook is '**Stable**'.

The rating reaffirmed reflects the long track record of SLES, its extensive experience of promoters in the Infrastructure sector, its sizeable order book position providing medium-term revenue visibility and its low counterparty risk with all orders coming from various Government departments of Andhra Pradesh, Telangana, and Karnataka. The rating also factors in its steady improvement in scale with stable EBITDA margins, comfortable financial profile of the company. The ratings, albeit, remained constrained by its tender-based business operations, exposure to slowdown in Indian economy on account of the ongoing Covid-19 pandemic, intense competition due to the fragmented nature of the construction sector and increased non-fund based limit requirement. Acuite believes that the ability of the company to secure enhancements in a timely manner would remain crucial to support the growth over the medium term.

Sree Lakshmi Electrical Services (SLES) is a Hyderabad (Telangana) based firm 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, civil contractor and is a registered Class I contractor with the Government of Telangana, Andhra Pradesh, and Karnataka.

Analytical Approach

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

Key Rating Drivers

Strengths

• Experienced Management

Established in 2003, by Mr. Chandra Mohan Reddy, who has more than two decades of experience in the civil construction industry. SLES is engaged in executing turnkey electrical projects for various Government departments of Andhra Pradesh (GoAP), Telangana (GoTS), and Karnataka. The promoter extensive industry experience and timely execution of projects has been able to establish long-standing relationship with various government as well as private clients. 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 Larsen & Toubro Limited, Ashok Buildcon Ltd, Dilip Buildcon Ltd among others. The timely execution of the projects has helped the firm in improving its market presence, besides continued business from its reputed clientele. The company revenues grew at a CAGR of 31 percent during the period between FY2017-FY2020 to Rs. 134.13 Cr in FY2020 on the back of healthy order execution.

Although the company's revenues declined to Rs. 68 Cr in 10M FY2021 owing to the Covid-19 pandemic, the revenue run rate is expected to recover to pre-Covid levels in FY2022 owing to expected ramp-up in execution of recently awarded projects and anticipated order inflow. As of January 2021, SLES has an unexecuted order book position of Rs.286 Cr; the same is for completion over 24 months which gives adequate revenue visibility over the medium term. Acuite believes that SLES's domain expertise continues to support in repeated business from Corporates, while long track record of operations is expected to support in winning the bidding nature of Government business.

- **Moderate financial risk profile**

SLES's financial risk profile is moderate marked by moderate net worth, healthy gearing (debt-to-equity), and high total outside liabilities to total net worth (TOL/TNW) and healthy debt protection metrics. SLES's net worth is moderate at Rs.17.74 Cr as on March 31, 2020 as compared to Rs.16.47Cr as on March 31, 2019. Gearing is healthy at 0.33 times as on March 31, 2020 as against 0.22 times as on March 31, 2019. TOL/TNW is high at 4.71 times as on March 31, 2020 vis-à-vis 3.21 times as on March 31, 2019. Its debt protection metrics are healthy marked by interest coverage ratio (ICR) and net cash accruals to total debt (NCA/TD) at 10.73 times and 1.35 times in FY2020 vis-à-vis 4.79 times and 1.58 times in FY2019, respectively. SLES generated cash accruals of Rs.3.63 to 5.25 Cr during the last 3 years through 2018-20, while its maturing debt obligations were in the range of Rs.0.10-0.15 Cr during the same period. The cash accruals of the company are estimated to remain around Rs.3-5 Cr during 2021-23 while their repayment obligations are estimated to be around Rs.0.50 Cr during the same period. Acuite believes that in absence of any major debt-funded capital expenditure; improving cash accruals will lead to moderate financial risk profile over the medium term.

Weaknesses

- **Moderate working capital operations**

SLES's working capital cycle is moderate as reflected in its moderate Gross current assets (GCA) days in the range of 191-237 days over the last 3 years ending March 31, 2020. The GCA days are marked by low inventory days and high debtor days. SLES had inventory and debtor days of 1 days and 172 days as on March 31, 2020 as against inventory and debtor days of 6 days and 146 days as on March 31, 2019. Furthermore, VIL benefits from the ability to stretch its payables in the range of 177-294 days during the last three years ended through as on March 31, 2020. Its bank lines are utilised at 89 percent over nine months through November 2020. The BG exposure was to the tune of Rs.17 Cr and was utilized at about 72 percent during last 12 months ending November, 2020. Acuite expects the working capital operations of SLES to remain moderate on account of the level of inventory to be maintained and the credit given to its customers.

- **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. 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. Acuite expects SLES enjoys the operational advantage and timely completion of the projects leading to securing business from corporates regularly.

- **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: Adequate

Liquidity of SLES is adequate marked by moderate cash accruals to its repayment obligations. SLES generated cash accruals of Rs.3.63 to 5.25 Cr during the last 3 years through 2018-20, while its maturing debt obligations were in the range of Rs.0.10-0.15 Cr during the same period. The cash accruals of the company are estimated to remain around Rs.3-5 Cr during 2021-23, while their repayment obligations are estimated to be around Rs.0.50 Cr during the same period. SLES's operations are high working capital intensive as

marked by Gross Current Asset (GCA) days of 237 in FY2020. Its working capital credit limits were high utilised at about 89 per cent during the last 12 months period ended Nov 2020. Further, it has free cash and bank balance of Rs. 5.20 Cr as on March 31, 2020 and Rs.3.76 Cr fixed deposits FY2020. 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.

Rating Sensitivities

- Sustained increase in order inflow, providing revenue visibility in the medium term
- Significant improvement in scale of operations, while maintaining profitability margins
- Any large debt-funded capital expenditure, resulting in deterioration of financial risk profile.

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 the deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	134.13	111.19
PAT	Rs. Cr.	5.10	3.78
PAT Margin	(%)	3.80	3.40
Total Debt/Tangible Net Worth	Times	0.30	0.21
PBDIT/Interest	Times	10.73	4.79

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

SLES has not cooperated with Care Ratings, which has classified the company as non-cooperative through a release dated May 11, 2020. The reason provided by Brickwork Rating is non-furnishing of information for monitoring of ratings.

Any other information

None

Material covenants

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Infrastructure Sector Entities- <https://www.acuite.in/view-rating-criteria-51.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
18-Feb-2021	Secured Overdraft	Long Term	5.00	ACUITE BBB-/ Stable (Upgraded from ACUITE BB+)
	Bank Guarantee	Short Term	17.00	ACUITE A3 (Upgraded from ACUITE A4+)
	Letter of Credit	Short Term	3.00	ACUITE A3 (Upgraded from ACUITE A4+)
	Proposed	Short Term	5.00	ACUITE A3

	Bank Facility			(Upgraded from ACUITE A4+)
23-OCT-2020	Overdraft	Short Term	3.00	ACUITE BB+ Issuer not co-operating* (Downgraded from ACUITE BBB-/Stable)
	Proposed Overdraft	Short Term	2.00	ACUITE BB+ Issuer not co-operating* (Downgraded from ACUITE BBB-/Stable)
	Bank guarantee	Long Term	12.50	ACUITE A4+ Issuer not co-operating* (Downgraded from ACUITE A3)
	Proposed Bank Guarantee	Long Term	7.50	ACUITE A4+ Issuer not co-operating* (Downgraded from ACUITE A3)
	Proposed Letter of Credit	Short Term	5.00	ACUITE A4+ Issuer not co-operating* (Downgraded from ACUITE A3)
13-Aug-2019	Proposed Letter of Credit	Short Term	5.00	ACUITE A3 (Assigned)
	Bank Guarantee	Short Term	12.50	ACUITE A3 (Reaffirmed)
	Proposed Overdraft	Long Term	2.00	ACUITE BBB- / Stable (Reaffirmed)
	Overdraft	Long Term	3.00	ACUITE BBB- / Stable (Reaffirmed)
	Proposed Bank Guarantee	Short Term	7.50	ACUITE A3 (Reaffirmed)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB- / Stable (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	17.00	ACUITE A3 (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A3 (Reaffirmed)
Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A3 (Reaffirmed)

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About Acuité Ratings & Research:

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and Exchange Board of India (SEBI). The corporation received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

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