Press Release

Shri Shaila Electricals India Private Limited

October 11, 2019

Rating Assigned

Total Bank Facilities Rated*	Rs. 18.00 Cr.
Long Term Rating	ACUITE BB/ Outlook: Stable
Short Term Rating	ACUITE A4+

** Refer Annexure for details*

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BB**' **(read as ACUITE double B)** and short-term rating of **'ACUITE A4+' (read as ACUITE A four plus)** to the Rs. 18.00 crore bank facilities of SHRI SHAILA ELECTRICALS INDIA PRIVATE LIMITED. The outlook is **'Stable'**.

Shri Shaila Electricals India Private Limited (SEPL) was established in the year 2001 as a proprietorship concern and later in 2009, the constitution was changed to private limited. The company is promoted by Mr. R. Jagadish and Mrs. Shylaja Jagadish. The company is engaged in executing turnkey electrical projects and is a registered Class I contractor with the Government of Karnataka, Bangalore Electricity Supply Company (BESCOM).

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced Management**
  Established in 2001, SEPL is engaged in executing turnkey electrical projects for various Government departments of Karnataka, Bangalore Electricity Supply Company (BESCOM). The company is a registered class I contractor with government of Karnataka. Apart from working with Bangalore Electricity Supply Company (BESCOM), the company also execute on sub-contract basis for Universal Cables Limited (part of MP Birla group). The timely execution of the projects helped the firm in improving its market presence, besides continued business from BESCOM. The company reported revenues of Rs. 42.68 crore in FY2019 (Provisional) as compared to Rs.13.23 crore in FY2018 and Rs.16.48 crore in FY2017. As of March 2019, SEPL has an unexecuted order book position of Rs.123.60 crore; the same are for completion over 24-36 months. Further, SEPL has participated in various tenders and bagged additional Rs. 8.92 crore of orders, which are to be executed in next 12 months. Overall, the company has an adequate revenue visibility over the medium term. Acuité believes that SEPL'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**
  SEPL's financial risk profile is comfortable marked by moderate net worth, healthy gearing (debt-to-equity) and comfortable total outside liabilities to total net worth (TOL/TNW) and healthy debt protection metrics. SEPL's net worth is moderate at Rs.10.57 crore as on March 31, 2019 (provisional) as compared to Rs. 2.92 crore as on March 31, 2018. Gearing is healthy at 0.36 times as on March 31, 2019 (provisional) against from 0.03 times in FY2018. This is on account promoters bringing in of Rs. 2.78 crore as unsecured loan. TOL/TNW is comfortable at 1.48 times in FY2019 (provisional) vis-à-vis 1.60 times in FY2018. Its debt protection metrics are healthy marked by interest coverage ratio (ICR) and net cash accruals to total debt (NCA/TD) at 77.21 times and 2.04 times in FY2019 (provisional) vis-à-vis 4.49 times and 14.25 times in FY2018, respectively. SEPL reported cash accruals in the range of Rs.1.17-7.78 crore over the past two years through FY2019 against which there are no repayment obligations. SEPL's cash accruals are estimated to remain around Rs. 8.00 – 10.00 crores during 2020-22, while its repayment obligations are minimal of Rs. 0.15 crore; which gives adequate comfort for the incremental working capital requirements. Acuité 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

- **Working capital intensive operations**

SEPL's operations are working capital intensive as evident from Gross Current Assets (GCA) of 205 days as on March 31, 2019 (provisional) as against 172 days as on March 31, 2018, on account of stretch in receivables. Receivable days are reported at FY2019: 155 days as against FY2018: 104 days. However, the same is supported by back to back stretch in creditors, which led to moderate utilisation of bank limits. However, Acuité believes with increasing scale of operations any further deterioration in working capital thereby leading to higher dependence on external bank borrowings will entail a negative bias towards the rating.

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

SEPL 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. SEPL 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 cyclicality in the works. Any event such as a significant slowdown in receipt of orders, deferment of projects by the counterparty or delay in realization of receivables from BESCOM will have a bearing on the operating cash flows and credit profile of the firm.

- **Customer and geographic concentration risk**

The operations of SEPL are restricted to Bangalore in the state of Karnataka, as the firm mainly executes projects for Bangalore Electricity Supply Company (BESCOM), Government of Karnataka.

Key Rating Sensitivity Factors

- Significant improvement in revenues while improvement in working capital.
- Any further deterioration in working capital

Material Covenants

- Subordination of unsecured loan from directors, Rs. 1.43 crore is stipulated by bank.

Liquidity Position

Liquidity of SEPL is adequate marked by moderate cash accruals to its repayment obligations. SEPL reported cash accruals in the range of Rs.1.12-7.78 crores over the past two years through FY2019 (provisional) against which there are no repayment obligations. SEPL's cash accruals are estimated to remain around Rs.8.00 – 10.00 crores during 2020-22, while its repayment obligations are expected to be around Rs. 0.15 crore; which gives adequate comfort for the incremental working capital requirements. SEPL's operations are working capital intensive as marked by gross current asset (GCA) days of 205 in FY2019 (Provisional). . Further, the company has unencumbered cash and bank balance of Rs. 0.16 crore as on March 31, 2019. Acuité 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

Acuité believes that SEPL 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 and working capital management. Conversely, the outlook may be revised to 'Negative' in case of any deterioration in working capital leading to higher reliance on external borrowings.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	42.68	13.23	16.48
EBITDA	Rs. Cr.	8.62	1.89	1.29
PAT	Rs. Cr.	7.64	1.35	1.10
EBITDA Margin	(%)	20.21	14.32	7.83
PAT Margin	(%)	17.90	10.19	6.66
ROCE	(%)	97.66	74.13	123.51
Total Debt/Tangible Net Worth	Times	0.36	0.03	0.23
PBDIT/Interest	Times	77.21	4.49	12.04
Total Debt/PBDIT	Times	0.44	0.05	0.28
Gross Current Assets (Days)	Days	205	172	147

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
- 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 BB / Stable (Assigned)
Term Loans	Not Applicable	Not Applicable	Not Applicable	0.07	ACUITE BB / Stable (Assigned)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE A4+ (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	6.93	ACUITE A4+ (Assigned)

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About Acuité Ratings & Research:

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