Press Release

Sharavathy Conductors Private Limited

May 05, 2020

Rating Assigned

Total Bank Facilities Rated*	Rs. 104.45 Cr.
Long Term Rating	ACUITE BB/Outlook: Stable (Assigned)
Short Term Rating	ACUITE A4+ (Assigned)

** Refer Annexure for details*

Rating Rationale

Acuité has assigned the long-term rating of '**ACUITE BB**' **(read as ACUITE double B)** and short-term rating of '**ACUITE A4+**' **(read as ACUITE A four plus)** on the Rs. 104.45 crore bank facilities of Sharavathy Conductors Private Limited (SCPL). The outlook is **'Stable'**.

Bangalore-based SCPL was incorporated in 1967 by late Mr. S.D. Patel and his wife Mrs. Anita S. Patel. Currently the company is headed by Mr. Kaardam Patel and Mr. Ramesh Patel. The company is engaged in manufacturing of electrical conductors through two of its manufacturing units in Bangalore.

The company is also engaged as an Engineering, Procurement, Construction (EPC) contractor wherein the scope of work includes design, testing of towers and other equipment required for the construction of transmission lines and sub-stations and the construction activities ranging from survey, civil works, and erection to stringing and commissioning of equipments.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of SCPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management and long track record of operations**

  SCPL is headed by Mr. Kaardam Patel, Mr. Ramesh Patel, Mr. Kashyap Patel and Mr. Prashant Patel who are all seasoned professionals in the electrical industry, each having an experience of over two decades. The company has an established track record with over five decades of presence in execution of projects. the company's clientele includes Karnataka Power Transmission Corporation Limited (KPTCL), Bharat heavy electricals limited (BHEL), National thermal power cooperation (NTPC) and Larson and Toubro (L&T) to name a few along with various state electricity boards. The company has been awarded "Udyog Patra'' by the Government of India for its performance in the sector which is backed by established track record of operations and the management's experience.

  Acuité believes that the company will continue to benefit from its established presence in the aforementioned industry along with the demonstrated track record of the promoter's.

- **Moderate financial risk profile**

  The financial risk profile of the company is moderate marked by moderate capitalization levels and healthy debt protection metrics. The net worth of the company increased to Rs.54.92 crore as on 31 March 2019 as against Rs.45.12 crore as on 31 March 2018, supported by healthy accretion in profits. The gearing of the company stood low at 0.10 times as on 31 March 2019 and 0.12 times as on 31 March 2018. total outside liabilities to total net worth stood moderate at 2.35 times as on 31 March 2019 as compared to 1.56 times in as on 31 March 2018.

The total debt of Rs.5.73 crore consist term loans of Rs.0.36 crore and working capital borrowings of Rs.5.37 crore as on 31 March 2019. The interest coverage ratio (ICR) of the company reduced to 8.85 times in FY2019 as compared to 9.47 times in FY2018. The debt service coverage ratio (DSCR) of the company stood healthy at 3.79 times in FY2019 as compared to 3.27 times in FY2018.

Acuité believes that the financial risk profile of SCPL will continue to remain moderate over the medium term due to large scale of operations and healthy debt protection measures.

Weaknesses

- **Significant elongation in working capital management**

SCPL's operations are working capital intensive in nature as reflected by its gross current asset (GCA) days of around 351 days as on March 31, 2019. The GCA days are dominated by the high credit period offered to the customers which is reflected by the debtor collection period of 271 days in FY2019 as compared to 97 days in FY2018. The inventory holding period of the company stood at 46 days in FY2019 as against 29 days in FY2018. Further the creditor payback period stood around 217 days as on 31st march 2019.

Acuité expects the operations of the company to remain working capital intensive on account of the high credit period offered to the customers, however any significant elongation which may have an impact on the liquidity profile of SCPL will entail a negative bias to 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. SCPL 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 will have a bearing on the operating cash flows and credit profile of the firm.

The scale of operations of SCPL underwent a sharp decline in FY2019 as evident by the operating income of Rs. 77.39 crores in the same period as against Rs. 144.20 crores in FY2018 and Rs. 128.62 crores in FY2017. The sudden drop in the operating income was on account of delays encountered by the company in execution of a major EPC project for KPTCL due to delays in Government clearances and other regulatory red tape.

Further SCPL faces customer concentration risk as over 90 percent of the revenues of the company are derived from the orders of the top 3 customer's viz. Karnataka Power Transmission Corporation Ltd., Hubli Electricity Supply Company Ltd and Power Grid Corporation of India Ltd.

Acuité believes that the company's ability to manage its scale of operations at optimal levels while diversifying its customer base will remain a key rating sensitivity.

Key Rating Sensitivity Factors

- Significant improvement in revenues while improvement in working capital.
- Significant elongation in working capital

Material Covenants

None

Liquidity Position: Adequate

SCPL has adequate liquidity marked by comfortable net cash accruals to no major maturing debt obligations. The company generated cash accruals of Rs. 10.39 crores during FY2019 against the debt obligation of Rs. 0.10 crores. The cash accruals of SCPL are estimated to be in a range of Rs.10-13 crores against no major repayment obligations during the period of 2020-22. The cash credit limit of the company remains utilized at around 55-60 per cent during the last twelve months' period ended October 2019. However, SCPL's working capital operations has deteriorated in FY2019 marked by significant increase in Gross Current Asset (GCA) days to 351 in FY2019 from 144 in FY2018. The company maintains unencumbered cash and bank balances of Rs.0.21 crore as on March 31, 2019.

Outlook: Stable

Acuité believes that SCPL will maintain a 'Stable' outlook over the medium term, owing to its promoters' extensive experience in the industry and longstanding operations. The outlook may be revised to 'Positive' in case the company achieves higher than expected sales and profitability, while diversifying its revenue profile and sustains its capital structure. Conversely, the outlook may be revised to 'Negative' if there is a further deterioration in working capital management leading to higher reliance on external borrowing thereby impacting financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	77.39	144.20
PAT	Rs. Cr.	9.79	13.82
PAT Margin	(%)	12.65	9.58
Total Debt/Tangible Net Worth	Times	0.10	0.12
PBDIT/Interest	Times	8.85	9.47

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - https://www.acuite.in/view-rating-criteria-17.htm
- Financial Ratios And Adjustments -https://www.acuite.in/view-rating-criteria-20.htm
- Entities In Manufacturing Sector - https://www.acuite.in/view-rating-criteria-59.htm
- Entities In Service Sector - https://www.acuite.in/view-rating-criteria-50.htm

Note on complexity levels of the rated instrument

https://www.acuite.in/criteria-complexity-levels.htm

Rating History (Up to 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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.45	ACUITE BB/Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	37.00	ACUITE A4+ (Assigned)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	40.00	ACUITE A4+ (Assigned)
Proposed short term	Not Applicable	Not Applicable	Not Applicable	17.00	ACUITE A4+ (Assigned)

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About Acuité Ratings & Research:
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