

## Press Release

### Cmrm Infraa Engineering Private Limited (Erstwhile Sree Lakshmi Electrical Services)

June 08, 2022



### Rating Downgraded

| Product                                   | Quantum (Rs. Cr) | Long Term Rating                 | Short Term Rating       |
|---|------------------|----------------------------------|-------------------------|
| Bank Loan Ratings                         | 40.00            | -                                | ACUITE A4+   Downgraded |
| Bank Loan Ratings                         | 5.00             | ACUITE BB+   Stable   Downgraded | -                       |
| <b>Total Outstanding Quantum (Rs. Cr)</b> | 45.00            | -                                | -                       |
| <b>Total Withdrawn Quantum (Rs. Cr)</b>   | 0.00             | -                                | -                       |

### Rating Rationale

Acuite has downgraded its long-term rating to 'ACUITE BB+' (read as ACUITE double B plus) from 'ACUITE BBB-' (read as ACUITE triple B minus) and short-term rating downgraded to 'ACUITE A4+' (read as ACUITE A four plus) from '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 downgrade in the rating reflects declining business performance. Revenues remained sluggish in the past two fiscals owing to weaker execution. CMRM reported significant decline in the scale of operations of by ~30% in FY22 and ~27% in FY21 due to limited order inflows due to Covid-19 and slowdown in execution of the existing work orders in hand. Moreover, stretch in the receivables and high payables has weakened the liquidity profile and this has resulted in near full utilization of the working capital limits. Sustained improvement in business profile with improved collections shall remain a key factor.

The rating reflects the extensive experience of the promoters in the electrical and civil construction industry and its moderate financial risk profile. These strengths are partially offset by large working capital requirements and exposure to intensifying competition and tender based nature of operations.

### About the Company

CMRM INFRAA ENGINEERING PRIVATE LIMITED (Formerly known as Sree Lakshmi Electrical Services) established as a proprietor concern in the year 2003, promoted by Mr. Chandra Mohan Reddy. In June 2013, it was reconstituted as a partnership firm. Mr. Chandra Mohan Reddy is the firm's Managing Partner, and his spouse, Mrs. Sowbhagya Lakshmi, is the firm's other partner. The same directors reconstituted it as a private company in March 2021. The company is an electrical contractor and is a registered Class I contractor with the Government of Telangana, Andhra Pradesh, and Karnataka.

### About the Group

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## Analytical Approach

Acuité has taken the standalone view of business and financial risk profile of CMRM 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 electrical and related 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 longstanding relationship with various government as well as private clients. The Company 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 company in improving its market presence, besides continued business from its reputed clientele.

The company's revenues declined by ~30% in FY2022 (Provisional) and ~27 % in FY2021 due to limited order inflows on account of Covid-19 and slowdown in execution of the work orders in hand. As of March 2022, CMRM has an unexecuted order book position of Rs.287 Cr; the same is for completion over next 24 months which gives adequate revenue visibility over the medium term. Acuité believes that CMRM'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

CMRM'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 (TOLT/NW) and healthy debt protection metrics. CMRM's net worth is moderate at Rs.20.85 Cr as on March 31, 2021 as compared to Rs.17.74 Cr as on March 31, 2020. Gearing is healthy at 0.16 times as on March 31, 2021 as against 0.30 times as on March 31, 2020. TOL/TNW is high at 3.64 times as on March 31, 2021 vis-à-vis 4.68 times as on March 31, 2020. Its debt protection metrics are healthy marked by interest coverage ratio (ICR) and net cash accruals to total debt (NCA/TD) at 5.58 times and 1.16 times in FY2021 vis-à-vis 10.73 times and 1.00 times in FY2020, respectively. Acuité 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

#### Working capital intensive nature operations

The CMRM's operations are working capital intensive in nature as reflected by its gross current asset (GCA) days of 191-292 days during last three years ended 31st March 2021. The inventory days ranged between 1-28 days and debtor's days ranged between 146-190 days during the last three years ended March 31, 2021. To support the working capital, the CMRM stretches the creditors to an extent of about 177-327 days during the last three years ended March 31, 2021. Its bank limits are utilised at ~85 percent during past 12 months ended March, 2022. Acuité believes that the operations of the CMRM will remain working capital intensive over the medium term.

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

CMRM operates in highly competitive and fragmented industry with presence of several

players and tender nature of business. CMRM 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 cyclical nature 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. Acuité expects CMRM enjoys the operational advantage and timely completion of the projects leading to securing business from corporates regularly.

### **ESG Factors Relevant for Rating**

Not Applicable

### **Rating Sensitivities**

- Sustained increase in order inflow, providing adequate revenue visibility for 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
- Timely execution of its order book

### **Material covenants**

None

### **Liquidity Position: Adequate**

Company has adequate liquidity marked by adequate net cash accruals to its maturing debt obligations. The CMRM generated cash accruals of Rs. 3.75 to 5.25 Cr during the last three years through 2019-21, while its maturing debt obligations were in the range of Rs. 0.15-0.25 Cr over the same period. The cash accruals of the company are estimated to remain around Rs. 4-6 Cr during 2022-24 while its repayment obligations are estimated to be around Rs. 0.15-0.50 Cr. The company's operations are working capital intensive as marked by gross current asset (GCA) days of 292 in FY 2021 as against days of 237 in FY2020. This has led to higher reliance on working capital borrowings, the working capital limits remains utilized at ~85 percent during the last 12 months period ended March, 2022. The Company maintains unencumbered cash and bank balances of Rs. 7.39 Cr as on March 31, 2021. The current ratio stands at 1.10 times as on March 31, 2021. Acuité believes that the liquidity of the CMRM is likely to remain adequate over the medium term on account of healthy cash accrual and no major repayments over the medium term. 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 CMRM 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 sustenance of the revenues and profitability margins while improving its working capital management. 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.

### **Other Factors affecting Rating**

Not applicable

## Key Financials

| Particulars                   | Unit    | FY 21 (Actual) | FY 20 (Actual) |
|-------------------------------|---------|----------------|----------------|
| Operating Income              | Rs. Cr. | 98.21          | 134.13         |
| PAT                           | Rs. Cr. | 3.56           | 5.10           |
| PAT Margin                    | (%)     | 3.63           | 3.80           |
| Total Debt/Tangible Net Worth | Times   | 0.16           | 0.30           |
| PBDIT/Interest                | Times   | 5.58           | 10.73          |

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

None

### Any other information

None

### Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Infrastructure Sector: <https://www.acuite.in/view-rating-criteria-51.htm>
- Application Of 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

| Date        | Name of Instruments/Facilities | Term       | Amount (Rs. Cr) | Rating/Outlook                                       |
|-------------|--------------------------------|------------|-----------------|--|
| 26 Feb 2021 | Bank Guarantee                 | Short Term | 17.00           | ACUITE A3 (Reaffirmed)                               |
|             | Letter of Credit               | Short Term | 3.00            | ACUITE A3 (Reaffirmed)                               |
|             | Secured Overdraft              | Long Term  | 5.00            | ACUITE BBB-   Stable (Reaffirmed)                    |
|             | Proposed Bank Guarantee        | Short Term | 20.00           | ACUITE A3 (Reaffirmed)                               |
| 18 Feb 2021 | Proposed Bank Facility         | Short Term | 5.00            | ACUITE A3 (Upgraded from ACUITE A4+)                 |
|             | Bank Guarantee                 | Short Term | 17.00           | ACUITE A3 (Upgraded from ACUITE A4+)                 |
|             | Secured Overdraft              | Long Term  | 5.00            | ACUITE BBB-   Stable (Upgraded from ACUITE BB+)      |
|             | Letter of Credit               | Short Term | 3.00            | ACUITE A3 (Upgraded from ACUITE A4+)                 |
| 23 Oct 2020 | Proposed Secured Overdraft     | Long Term  | 2.00            | ACUITE BB+ (Downgraded and Issuer not co-operating*) |
|             | Secured Overdraft              | Long Term  | 3.00            | ACUITE BB+ (Downgraded and Issuer not co-operating*) |
|             | Bank Guarantee                 | Short Term | 12.50           | ACUITE A4+ (Downgraded and Issuer not co-operating*) |
|             | Proposed Letter of Credit      | Short Term | 5.00            | ACUITE A4+ (Downgraded and Issuer not co-operating*) |
|             | Proposed Bank Guarantee        | Short Term | 7.50            | ACUITE A4+ (Downgraded and Issuer not co-operating*) |
|             | Proposed Letter of Credit      | Short Term | 5.00            | ACUITE A3 (Assigned)                                 |

|                |                               |               |       |                                   |
|----------------|-------------------------------|---------------|-------|-----------------------------------|
| 13 Aug<br>2019 | Bank Guarantee                | Short<br>Term | 12.50 | ACUITE A3 (Reaffirmed)            |
|                | Proposed Secured<br>Overdraft | Long<br>Term  | 2.00  | ACUITE BBB-   Stable (Reaffirmed) |
|                | Secured Overdraft             | Long<br>Term  | 3.00  | ACUITE BBB-   Stable (Reaffirmed) |
|                | Proposed Bank<br>Guarantee    | Short<br>Term | 7.50  | ACUITE A3 (Reaffirmed)            |
| 06 Aug<br>2019 | Proposed Secured<br>Overdraft | Long<br>Term  | 2.00  | ACUITE BBB-   Stable (Assigned)   |
|                | Secured Overdraft             | Long<br>Term  | 3.00  | ACUITE BBB-   Stable (Assigned)   |
|                | Bank Guarantee                | Short<br>Term | 12.50 | ACUITE A3 (Assigned)              |
|                | Proposed Bank<br>Guarantee    | Short<br>Term | 7.50  | ACUITE A3 (Assigned)              |

## Annexure - Details of instruments rated

| Lender's Name       | ISIN           | Facilities                         | Date Of Issuance | Coupon Rate    | Maturity Date  | Quantum (Rs. Cr.) | Rating                                 |
|---------------------|----------------|------------------------------------|------------------|----------------|----------------|-------------------|--|
| Union Bank of India | Not Applicable | Bank Guarantee/Letter of Guarantee | Not Applicable   | Not Applicable | Not Applicable | 25.00             | ACUITE A4+<br> <br>Downgraded          |
| Union Bank of India | Not Applicable | Letter of Credit                   | Not Applicable   | Not Applicable | Not Applicable | 3.00              | ACUITE A4+<br> <br>Downgraded          |
| Union Bank of India | Not Applicable | Overdraft                          | Not Applicable   | Not Applicable | Not Applicable | 5.00              | ACUITE BB+<br>  Stable  <br>Downgraded |
| Not Applicable      | Not Applicable | Proposed Bank Guarantee            | Not Applicable   | Not Applicable | Not Applicable | 12.00             | ACUITE A4+<br> <br>Downgraded          |

## Contacts

| Analytical  | Rating Desk  |
|---|--|
| Aditya Gupta<br>Vice President-Rating Operations<br>Tel: 022-49294041<br><a href="mailto:aditya.gupta@acuите.in">aditya.gupta@acuите.in</a>                                   | Varsha Bist<br>Senior Manager-Rating Operations<br>Tel: 022-49294011<br><a href="mailto:rating.desk@acuите.in">rating.desk@acuите.in</a> |
| Bhavani sankar Oruganti<br>Assistant Manager-Rating Operations<br>Tel: 022-49294065<br><a href="mailto:bhavanisankar.oruganti@acuите.in">bhavanisankar.oruganti@acuите.in</a> |  |

### About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned 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 Kanjurmarg, Mumbai.

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