

Esteem Projects Private Limited: Downgraded

Facilities	Amount (Rs. Crore)	Ratings/Outlook
Secured Overdraft	0.50	SMERA BB-/Stable (Assigned)
Bank Guarantee	12.00*	SMERA BB-/Stable (Downgraded from SMERA BB/Stable)
Proposed Bank Guarantee	2.50	SMERA BB-/Stable (Assigned)

*Enhanced from Rs.6.90 crore to Rs.12.00 crore

SMERA has downgraded the long term rating on the abovementioned Rs.12.00 crore (enhanced from Rs.6.90 crore) bank facility of Esteem Projects Private Limited (EPPL) to '**SMERA BB-**' (read as **SMERA double B minus**) from '**SMERA BB**' (read as SMERA double B). SMERA has also assigned long term rating of '**SMERA BB-**' (read as **SMERA double B minus**) to the Rs.3.00 crore bank facilities. The outlook is '**Stable**'.

The rating downgrade is due to deterioration in its working capital cycle reflecting tightening of its liquidity profile. This is marked by increase in creditors to 728 days in FY2016 as compared to 530 days in FY2015. The debtors have increased to 164 days in FY2016 as compared to 114 days in FY2015. The gross current asset days are at 199 days and 150 days in FY2016 and FY2015 respectively.

However, the inventory levels of the company continue at comfortable levels of 16 days and 15 days in FY2016 and FY2015 respectively. The rating continues to draw comfort from the company's healthy profit margins, and reputed clientele. The rating also draws support from the management's extensive experience in the steel and fabrication industry. The rating is constrained by the small scale of operations and stretched working capital cycle with gross current assets of 199 days in FY2015-16.

Update

EPPL reported turnover of Rs.22.90 crore in FY2016 as against Rs.22.40 crore in the previous year. The operating margins rose to 14.25 per cent in FY2016 from 11.61 per cent in FY2015. The gross current assets remain stretched at 199 days in FY2016 as compared to 150 days in FY2015. Inventory and debtors stand at 16 and 164 days respectively in FY2016.

Rating Sensitivity Factors

- Scaling up operations
- Efficient working capital management

Outlook-Stable

SMERA believes that EPPL's outlook will remain '**Stable**' over the medium term on the back of the company's experienced management and established relationships with customers. The outlook may be revised to '**Positive**' in case EPPL generates healthy cash flows through successful execution of projects while achieving efficient working capital management. Conversely, the outlook will be revised to '**Negative**' in case of a further stretch in the company's liquidity position or delay in project execution.

About the Company

EPPL, incorporated in 1994 is an engineering company that designs, builds and revamps fired heaters - heaters, cracking furnaces, reformers and related equipment for the hydrocarbon and chemical industries. The company was promoted by Mr. Gurcharan Singh. Its directors include Mr. Gurcharan Singh, Mrs. Rajinder Kaur, Mr. Gurinder Singh and Mr. Tanveer Singh.

For FY2015–16, EPPL reported Profit after Tax (PAT) of Rs.1.97 crore on total operating income of Rs.22.90 crore, as compared with PAT of Rs.1.54 crore on total operating income of Rs.22.40 crore in FY2014–15.

Rating History

Date	Facility	Amount (Rs. Crore)	Rating		Rating Outlook
			Long Term	Short Term	
9 September, 2015	Bank Guarantee	6.90	SMERA BB (Assigned)	-	Stable

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ABOUT SMERA

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