

Expat Engineering India Limited

March 02, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long term Bank Facilities	11	CARE B; Stable (Single B; Outlook: Stable)	Revised from CARE B+; Stable (Single B Plus; Outlook: Stable)
Short term Bank Facilities	13.5	CARE A4 (A Four)	Reaffirmed
Total Bank Facilities	24.50 (Rs. Twenty-Four Crore and Fifty Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating revision of the bank facilities of Expat Engineering India Limited (EIL) factors in the decline in scale of operations during FY20 coupled with continuing weak financial risk profile during 9MFY21 impacted by Covid-19 led lockdown which affected the project execution, working capital intensive nature of operations leading to elongated operating cycle and cyclicity inherent to the real estate sector. The rating also factors in the stretched liquidity position during 9MFY21 with near full CC utilization. However, the rating continues to derive strength from its experienced promoters in the construction industry and satisfactory orderbook position.

Rating Sensitivities

Positive Factors- Factors that could lead to positive rating action/upgrade

- Sustainable improvement in scale of operations and profitability with PBILDT margin above 10%.

Negative Factors- Factors that could lead to negative rating action/ downgrade

- Deterioration in overall gearing over 2x.

Detailed description of the key rating drivers

Key Rating weaknesses

Weak financial risk profile

Company's sales reduced by 32.7% during FY20[PY: Rs.63.17 crore]. However, the company's PBILDT margin improved to 8.09% [5.78%] on account of reduction in material costs of the company to ~81% of total sales [PY: ~86%]. The same led to marginal improvement in PAT margin to 1.8% during FY 20[PY: 1.6%]. Overall gearing remained stable at 1.29x as on March 31, 2020 [March 31, 2019: 1.31x]. TDGCA deteriorated to 18.57x during FY20 [PY: 16.83x] due to moderation in cash surplus. During 9MFY21, the company could achieve turnover of only Rs 19 crores due to slowdown of construction activity in all sites during lockdown period.

Working capital intensive nature of operations

The inventory holding period of the company is high at 521 days [PY: 419 days] due to pending internal projects of the company which are yet to be invoiced. This led to elongated operating cycle of the company which is around 409 days [PY: 379 days].

Cyclicity inherent to the real estate sector

Being a civil contractor, company is primarily engaged in construction of real estate projects, EIL is exposed to the cyclicity of the real estate sector. Weak macro-economic scenario persisting after demonetization, RERA and pandemic has significantly impacted the overall scale of operations of the company.

Key Rating Strengths

Experience of promoters

EIL is promoted by Mr Santosh Balakrishna Shetty and several others and is engaged in executing contracts for land & infrastructure development and construction of residential & commercial buildings for projects belonging to the Expat group as well as others.

Satisfactory order book position

EIL historically has been dependent on its group projects for its order book. However, in the recent past the company is totally dependent on external projects which helped to expand the customer base and reduce the customer concentration risk. EIL has an order book position of Rs 140.4 crore as on Feb, 2021 from external projects and one active internal project.

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

Liquidity: Stretched

The short term liquidity of the company is stretched with negligible cash and bank balances and negative cash accruals during 9MFY21. However, the company has availed Guaranteed emergency line of credit of Rs 2 crores to support its operations and debt repayment obligations. The company availed moratorium for a period of 6 months starting from March, 2020. CC utilization remained near full for 12 months ending Jan 2021

Analytical approach: Standalone

Applicable Criteria

[CARE'S methodology for construction companies](#)

[CARE'S methodology for short-term instruments](#)

[Criteria on assigning Outlook to credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Financial Ratios- Non Financial Sector](#)

[Liquidity Analysis of Non – Financial Sector Entities](#)

About the Company

Expat Engineering India Limited (EEL) was originally a division of Expat Properties India Limited, established in 1999 and part of the Expat Group. Later in 2007, this division demerged into a separate entity, EEL. This restructuring was done in order to expand the operations for construction of residential buildings other than the group projects.

Brief Financials (Rs. crore)	FY19 (A)	FY20(Prov)
Total operating income	63.17	42.51
PBILDT	3.65	3.44
PAT	1.00	0.77
Overall gearing (times)	1.31	1.29
Interest coverage (times)	2.18	2.33

A: Audited; Prov: Provisional

Status of non-cooperation with previous CRA: Not Applicable

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/ facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	11.00	CARE B; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	-	13.50	CARE A4

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	11.00	CARE B; Stable	1)CARE B+; Stable (02-Apr-20)	-	1)CARE B+; Stable (14-Mar-19)	1)CARE B+ (28-Mar-18)
2.	Non-fund-based - ST-Bank Guarantees	ST	13.50	CARE A4	1)CARE A4 (02-Apr-20)	-	1)CARE A4 (14-Mar-19)	1)CARE A4 (28-Mar-18)

Annexure-3: Detailed explanation of covenants of the rated facilities:

Name of the Instrument	Detailed explanation
A. Financial covenants	I. Current ratio of 1.33x to be maintained.
B. Non financial covenants	II. Book debts statement shall be obtained quarterly once certified by the auditor

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Non-fund-based - ST-Bank Guarantees	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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About CARE Ratings:

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