

## Expat Engineering India Limited

April 05, 2022

### Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	11.00	CARE B; Stable (Single B; Outlook: Stable )	Reaffirmed
Short Term Bank Facilities	13.50	CARE A4 (A Four )	Reaffirmed
<b>Total Bank Facilities</b>	<b>24.50</b> <b>(Rs. Twenty-Four Crore and Fifty Lakhs Only)</b>		

Details of instruments/facilities in Annexure-1

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Expat Engineering India Limited (EEIL) continues to remain constrained on account of its small scale of operations with net losses during FY21 (refers to the period April 01 to March 31), moderate capital structure and weak debt coverage indicators, working capital intensive nature of operations and stretched liquidity during. The ratings further remained constrained on account of cyclicity inherent in the real estate sector. The ratings, however, continue to derive strength from experience of promoters in the construction industry and moderate order book position provides medium term revenue visibility.

#### Key Rating Sensitivities

##### **Positive Rating Factors**

- Sustainable improvement in scale of operations of more than Rs.70 crore with profitability with PBILDT margin above 10%

##### **Negative Rating Factors**

- Deterioration in overall gearing over 2x
- Any cashflow mismatch from operations putting pressure on liquidity

#### Detailed description of the key rating drivers

##### **Key Rating Weaknesses**

##### **Small scale of operations with net losses during review period**

The company has reported significant decline in TOI during FY21 (A) and remained at Rs. 26.77 crores as against Rs. 43.33 crores during FY20 due to adverse market conditions as well as lower and slow realization from its customers. However, in 10MFY22(Prov), the company has achieved TOI of around Rs. 20 crores.

As a result of decrease in revenue realization for company with incurring proportionately higher fixed overheads, profitability of company decreased marked by PBILDT of Rs.0.99 crore in FY21 against PBILDT of Rs.2.68 crore in FY20. Resultantly, with increase in interest charges due to increase in debt level by availing COVID loan during the year, EEIL reported net loss of R. 1.77 crore in FY21 as against PAT of Rs. 0.65 crores in FY20. Consequently, EEPL has reported cash loss of Rs.0.83 crore in FY21 against gross cash accruals of Rs.1.28 crore in FY20.

##### **Moderate capital structure and weak debt coverage indicators**

Capital structure of the company remained moderate marked by overall gearing ratio of 1.47x as on March 31, 2021 (A) as against 1.27x as on March 31, 2020. The moderation was due to higher debt levels owing to addition of COVID loan and marginal decline in tangible net worth level due to accumulation of losses to reserves.

Further as a result of reporting cash loss and low operating profitability, debt coverage indicators remained weak marked by negative TDGCA ratio and below unity interest coverage during FY21 (A).

##### **Working capital intensive nature of operations**

The operating cycle of the company remained elongated at 780 days during FY21 (A) from 441 days during FY20. The elongation is due to higher inventory holding period which is due to slower sale of constructed units from their customers as well as pending orders which were not realized in time.

##### **Cyclicity inherent to the real estate sector**

Being a civil contractor, company is primarily engaged in construction of real estate projects, EEIL 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.

<sup>1</sup> Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

## Key Rating Strengths

### Experienced Promoters

EEIL 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.

### Moderate order book position provides medium term revenue visibility

As on February 08, 2022, company has outstanding order book of Rs 139.87 crores which is 5.22x of revenue earned in FY21 and same likely to complete by July 2024 thereby providing medium term revenue visibility to the entity.

### Liquidity Position: Stretched

The company has stretched liquidity position characterized by inadequate cash accruals to meet its repayment obligations of Vehicle loans. However, the said liquidity gap would be met by unsecured loans from promoters as well as realization from receivables. Cash and bank balance remained low at Rs. 0.09 Crore as on March 31, 2021 (A), while it has net cash flow from operations have turned negative at Rs.0.71 crores as against positive Rs. 1.69 crores during FY20 which was due to blockage of money into inventories. The average utilization of working capital limit for the last 12 months ended January 31, 2022 remained at around 98%.

**Analytical approach:** Standalone

### Applicable criteria

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

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

[Rating Methodology – Construction Sector](#)

[Criteria for Short Term Instruments](#)

[Financial ratios – Non-Financial Sector](#)

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

### About the Company

Expat Engineering India Limited (EEIL) 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, EEIL. This restructuring was done to expand the operations for construction of residential buildings other than the group projects. EEIL, promoted by Mr. Santosh Balakrishna Shetty and several others, 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.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	10MFY22 (Prov.)
Total operating income	43.33	26.77	20.00
PBILDT	2.68	0.99	NA
PAT	0.65	-1.77	NA
Overall gearing (times)	1.27	1.47	NA
Interest coverage (times)	1.82	0.50	NA

A: Audited, Prov. – Provisional; NA: Not Available

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

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

**Covenants of rated instrument/facility:** Please refer Annexure-3

**Complexity level of various instruments rated for this company:** Please refer Annexure-4

### 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 Guarantee		-	-	-	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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Cash Credit	LT	11.00	CARE B; Stable	-	1)CARE B; Stable (02-Mar-21) 2)CARE B+; Stable (02-Apr-20)	-	1)CARE B+; Stable (14-Mar-19)
2	Non-fund-based - ST-Bank Guarantee	ST	13.50	CARE A4	-	1)CARE A4 (02-Mar-21) 2)CARE A4 (02-Apr-20)	-	1)CARE A4 (14-Mar-19)

**Annexure 3: Detailed explanation of covenants of the rated instrument / facilities:** Not applicable

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

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - ST-Bank Guarantee	Simple

**Annexure 5: Bank Lender Details for this Company**

To view the lender wise details of bank facilities please [click here](#)

**Note on complexity levels of the rated instrument:** CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careedge.in](mailto:care@careedge.in) for any clarifications.

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