Sharika Enterprises Limited

March 08, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	7.80	CARE B; Stable	Assigned
Long Term / Short Term Bank Facilities	2.20	CARE B; Stable / CARE A4	Assigned
Short Term Bank Facilities	10.00	CARE A4	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Sharika Enterprises Limited (SEL) are primarily constrained by its small and fluctuating scale of operations coupled with losses in FY23, weak debt coverage indicators, elongated operating cycle, low and concentrated order book position. Further, the ratings are also constrained by risk associated with project execution risk inherent in various infrastructure projects and its presence in a highly competitive industry with business risk associated with tender-based orders.
The ratings, however, draw comfort from the experienced management coupled with long track record of operations and comfortable capital structure.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in scale of operations as marked by total operating income of above Rs.80.00 crore by timely execution of projects in hand and improvement in the order book position to more than 2.00x of previous year turnover.
- Improvement in profitability margins as marked by PBILDT margin above 5.00% on sustained basis.
- Improvement in the collection period of the company for less than 100 days.

Negative factors

- Deterioration in the capital structure as marked by overall gearing ratio of above 1.20x.
- Continued significant losses incurred by the company putting further stress on the liquidity position of the company.

Analytical approach: Standalone

Outlook: Stable

The "Stable" outlook reflects that the entity will continue to benefit from the experience of the promoters in the industry along with its established track record of operations.

Detailed description of the key rating drivers:

Key weaknesses

Small and fluctuating scale of operations coupled with losses in FY23: SEL's scale of operations stood small as evident from total operating income (TOI) of Rs.50.40 crore and cash losses of Rs.(2.65) crore respectively, during FY23 (FY refers to the period April 1 to March 31). Nevertheless, the scale remains small, it limits the company's financial flexibility in times of stress and deprives it of scale benefits. Moreover, SEL's scale of operations remained fluctuating for the period FY21-FY23 (refers to the period April 1 to March 31). TOI declined in FY22 over FY21 and thereafter registered improvement in FY23. The same was on account of higher execution of contracts. Further the company has incurred net losses of Rs.(3.07) crore in FY23 due to written off obsolete inventory and bad debts to the tune of Rs.3.96 crore. Furthermore, the company has achieved total operating income of Rs.49.07 crore and incurred net losses of Rs.(5.96) crore during 9MFY24 (refers to the period from April 1, 2023 to December 31, 2023; based on unaudited results) and is expected to clocked revenue of ~Rs.80.00 crore in FY24 owing to major billing and revenue generation gets done in the last quarter of year.

Weak debt coverage indicators: SEL has weak debt coverage indicators owing to cash losses incurred in FY23. The debt coverage indicators of the company as marked by interest coverage ratio and total debt to GCA is expected to remain weak over the medium term.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Elongated operating cycle: The operations of the company stood elongated to 186 days for FY23 as against 183 days for FY22 with majority of funds blocked with debtors leading to elongated collection period. The company raises bills on milestone basis i.e. on the completion of certain percentage of work i.e. 70% against the supply of material, 10% at the time of erection, 10% after testing & commissioning and rest 10% is kept as retention money and thereon which gets acknowledged by customer after necessary inspection of work done by the respective departments. Post inspection, the department clears the payment within 5-6 months (maximum) by deducting certain percentage of bill raised (10% of bill amount) to be held for the warranty period in the form of retention money (usually upto 5 years), which can be released after submission of bank guarantee. Furthermore, there is normally a procedural delay in relation being customers are primarily government departments/ public sector undertakings. Moreover, major portion of contracts are executed in the last quarter of financial year and hence, the bills raised mostly gets realized in the first quarter of the next financial year. Thus, the average collection period stood at 185 days for FY23. The inventory is in the form of raw materials and work in progress at different sites on account of procedural delays involved in the certifications/validation of the invoices for the contracts executed resulting in an average inventory holding period of 74 days for FY23. Further, owing to long standing presence in the industry, the company receives an average credit period of around 2-3 months from its suppliers resulting in an average creditor's period of around 72 days for FY23. The average utilization of fund-based working capital limits remained almost 85% utilized for past 12 months ending February, 2024.

Low and concentrated order book position: SEL has low unexecuted order book position of ~Rs.38.73 crore as on September 30, 2023 which is equivalent to ~0.77x the total operating income achieved in FY23, thereby reflecting short-term revenue visibility in the near term. Further, the present entire unexecuted order book is concentrated ~76.61% towards contracts LS Cable India Private Limited. Thus, the company is exposed to risk of any unfavourable changes in the policies towards award of new contracts by LS Cable India Private Limited. Furthermore, the effective and timely execution of the orders has a direct bearing on the total income and margins of the company

Project execution risk inherent in various infrastructure projects: Given the nature of projects awarded, SEL is exposed to inherent risk in terms of delays in certain projects undertaken by the company due to delay in approvals and sanction from regulatory bodies thus exposing SEL towards the risk of delay in projects resulting in a delay in the realization of revenue growth. Further, the company's ability to execute a project in timely manner would be led by its own operational efficiency and timely stage payments received from its clients which are crucial from credit prospective.

Highly competitive industry with business risk associated with tender-based orders: SEL operates in a highly competitive industry wherein it faces direct competition from various organized and unorganized players in the market given the low barriers to entry. There are number of small and regional players catering to the same market which has limited the bargaining power of the company and has exerted pressure on its margins. Further, the company majorly undertakes government and private projects, which are awarded through the tender-based/ bidding system. This exposes the company towards risk associated with the tender-based business, which is characterized by intense competition. The growth of the business depends on its ability to successfully bid for the tenders and emerge as the lowest bidder. This apart, any changes in the government policy or government spending on projects are likely to affect the revenues and profits of the company.

Key strengths

Experienced management coupled with long track record of operations: SEL is currently being managed by Mr. Rajinder Kaul and Mr. Sanjay Verma. Mr. Rajinder Kaul (Managing Director) has done B.Tech and M.B.A. He holds experience of more than three decades in varied sectors such EPC business, power generation, transmission and distribution sector through his association with this entity and in individual capacity. Before that, he was associated with the companies namely; "Cable Corporation of India Limited" and "Schneider Electric India Private Limited" at a managerial position. The other director; Mr. Sanjay Verma holds experience of more than two decades in EPC business through his association with this entity. Further, SEL is also supported by a team of qualified engineers, supervisory staff and technical team to work on various sites having relevant experience in their respective fields. The company is having a considerable track record in this business which has given them an understanding of the dynamics of the market and enabled them to establish a long-term relationship with both suppliers and customers.

Comfortable capital structure: The capital structure of the company stood comfortable as on the past three balance sheet dates ending March 31, '21-'23 on account of comfortable net worth base against the limited debt levels. The overall gearing ratio moderated though stood comfortable at 0.50x as on March 31, 2023 as against 0.49x as on March 31, 2022 primarily on account of erosion of net worth base owing to losses incurred by the company. Further, the capital structure is expected to remain comfortable at below unity level as envisage in the near to medium term on account of limited debt levels coupled with comfortable tangible net worth base.

Liquidity: Stretched

The liquidity position of the company remained stretched characterized by high average utilization of its working capital limits which stood ~85% for the past 12 month's period ending February, 2024 along with elongated collection period due to delay in the realization from the various government departments. Further, the company has low free cash & bank balances which stood at Rs.0.22 crore as on September 30, 2023. Moreover, the company has incurred cash losses to the extent of Rs.(2.65) crore during FY23 and Rs.(5.49) crore in 9MFY24. However, the company has positive cash flow from operations to the tune of Rs.4.02 crore as on March 31, 2023 to support the short-term liquidity. Further, it is expected to generate net cash accruals (NCA) of Rs.1.50 crore for FY24 against repayment obligations of Rs.1.97 crore. The promoters will also infuse funds to support the liquidity of the company as per requirement. In FY24, the promoters, liquidated one of the properties to the tune of Rs.4.75 crore and the same is being used for the debt repayment obligations.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Financial Ratios – Non financial Sector
Service Sector Companies
Construction
Short Term Instruments

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Industrials	Construction	Construction	Civil Construction

Sharika Enterprises Limited (SEL) (erstwhile known as Sharika Enterprises Private Limited) was incorporated in May, 1998 as a private limited company. Later, in 2017, it was converted into public limited company (Listed). The company is currently being managed by Mr. Rajinder Kaul and Mr. Sanjay Verma._The company undertakes engineering procurement construction (EPC) contracts wherein it is engaged in the designing, supply, installation, testing, laying, commissioning and maintenance of power transmission EHV cables & accessories, electrical sub-stations, switchyards, power capacitors, switchgears, cast resin transformers, auto re-closers, fault passage indicators (FPI), LED street lighting system, solar home lighting system, grid & off-grid rooftop solar power plants, etc. The company is also engaged in proving consultancy for project management and EPC contracts in the field of power generation, transmission and distribution sector which contributes ~10% of the total income in FY23. The company caters to different government departments/public sector undertakings and private entities such as Tata Power Delhi Distribution Limited, Bharat Heavy Electrical Limited, NHPC Limited, Himachal Pradesh State Electricity Board Limited, NTPC Limited, etc. SEL participate in tenders/bids floated by government/public sector undertakings and private entities.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	9MFY24 (UA)*
Total operating income	39.25	50.40	49.07
PBILDT	2.49	-1.37	-7.43
PAT	1.57	-3.07	-5.96
Overall gearing (times)	0.49	0.50	NA
Interest coverage (times)	1.63	-0.87	-8.95

A: Audited; UA.: Unaudited; NA: Not Available; Note: 'the above results are latest financial results available'
*refers to the period from April 1, 2023 to December 31, 2023.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

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

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	3.75	CARE B; Stable
Fund-based - LT-Term Loan		-	-	March, 2028	4.05	CARE B; Stable
Fund-based/Non-fund-based-LT/ST		-	-	-	2.20	CARE B; Stable / CARE A4
Non-fund-based - ST-Bank Guarantee		-	-	-	10.00	CARE A4

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-Term Loan	LT	4.05	CARE B; Stable				
2	Fund-based - LT-Cash Credit	LT	3.75	CARE B; Stable				
3	Non-fund-based - ST-Bank Guarantee	ST	10.00	CARE A4				
4	Fund-based/Non-fund-based-LT/ST	LT/ST*	2.20	CARE B; Stable / CARE A4				

*Long term/Short term

Annexure-3: Detailed explanation of the covenants of the rated instrument/facilities: Not Applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Fund-based/Non-fund-based-LT/ST	Simple
4	Non-fund-based - ST-Bank Guarantee	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings 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 for any clarifications.

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About us:
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