Sri Venkateswara Mechanical And Electrical Engineering Industries

January 22, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	2.34	CARE B; Stable; ISSUER NOT COOPERATING* (Single B; Outlook: Stable ISSUER NOT COOPERATING*)	Rating continues to remain under ISSUER NOT COOPERATING category and Revised from CARE BB-; Stable; (Double B Minus; Outlook: Stable)
Long Term / Short Term Bank Facilities	10.66	CARE B; Stable / CARE A4; ISSUER NOT COOPERATING* (Single B ; Outlook: Stable/ A Four ISSUER NOT COOPERATING*)	Rating continues to remain under ISSUER NOT COOPERATING category and Revised from CARE BB-; Stable / CARE A4; (Double B Minus ; Outlook: Stable / A Four)
Total Bank Facilities	**13.00 (Rs. Thirteen Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE had, vide its press release dated December 10, 2019 placed the rating(s) of Sri Venkateswara Mechanical and Electrical Engineering Industries (SVMEEI) rating, under the 'issuer non-cooperating' category as SVMEEI had failed to provide information for monitoring of the ratings. SVMEEI continues to be non-cooperative despite repeated requests for submission of information through e-mails, phone calls and emails dated January 2020 to January 08, 2021. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the best available information which however, in CARE's opinion is not sufficient to arrive at a fair rating.

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating

The rating has been revised by taking into account of non-availability of requisite information due to non-cooperation by Sri Venkateswara Mechanical and Electrical Engineering Industries with CARE's efforts to undertake a review of the outstanding rating as CARE views information availability risk as a key factor in its assessment of credit risk**.**

Detailed description of the key rating drivers

At the time of last rating on December 10, 2019 the following were the rating strengths and weaknesses:

Key Rating Weakness

Small Scale of operations

Despite the long track record of operations and over two decades of experience in this field, the scales of operations of the firm are relatively small in comparison to other peers in the same segment. The firm has achieved total operating income of Rs. 12.91 crore during FY18 and the net worth of the firm has also remained low at Rs 2.83 crore as on March 31, 2018.

Decline in total operating income in FY18 (Prov.)

The TOI of the firm has declined from Rs.17.72 crore in FY17 to Rs. 12.91 crore in FY18. Although the firm had Rs. 4.22 crore order from Advance Systems Laboratory (ASL), the execution of the same could not happen in FY18 as the firm faced delay in receipt of designs and models from ASL, leading to a decline in TOI during FY18, when compared to FY17.

Working capital intensive nature of operations with elongated creditor days

The firm is operating in working capital intensive nature of business segment. The firm funds the working capital requirement by utilizing the sanctioned cash credit facility of Rs.0.40 lakhs along with delayed payments to its sundry creditors. High and elongated creditor's period has resulted in negative working capital cycle. During FY18, the creditors period stood at 159 days as compared to 126 days in FY17. The firm avails the credit period of 120-140 days from its suppliers, due to long term relationship. Furthermore, the firm receives the payment from its debtors after the testing and quality checks from the client side. The payments get delayed if there is any delay from the customer's end for various testing and quality checks as per the standards. The firm has to maintain the average inventory of 45-70 days to execute the current orders in hand and to mitigate the price fluctuation. The average CC utilization was 85% for the last 12 months ended July 31, 2018

High dependency on defence orders
The firm since inception engaged in manufacturing of defence equipment and highly dependent on defence sector for the orders, which shows limited diversification plan for the firm. However, the Government of India allocates highest budget fund in defence sector which mitigates the risk of getting order.

Constitution of the entity as partnership concern with inherent risk of withdrawal of capital and limited access to funding
The firm being in a partnership entity is exposed to inherent risk of capital withdrawal by partners due to its nature of constitution. Any significant withdrawals from the capital account would be impacted the net worth and thereby the firm's capital structure*.* Further during FY16 to FY18 the partners have withdrawn capital to the tune of Rs. 3.44 crore.

Key Rating Strengths

Longstanding experience of the partners and established track record of the firm
SVMEEI is promoted by Mr. C. Satyanarayana Reddy (Managing partner) and Mr V. Lakshmi Narayan Reddy. Both hold Bachelor degree in Mechanical Engineering. Mr. C. Satyanarayana Reddy has more than two decades of experience in Mechanical, Aerospace and Defence equipment manufacturing.

The firm has started its operations since 1989. The firm has received various State and Central awards from Andhra Pradesh and Government of India for the services rendered. Due to the quality and long track record of the firm, it directly gets the order from its client under single tender and limited tender which contributes 90% of the total revenue.

Improved profitability margins
SVMEEI profitability margins have been satisfactory due to presence in Indian defence and aerospace segment wherein work orders carry better margins. The PBILDT margin of the firm has improved from 9.73% in FY17 to 11.43% in FY18 due to absorption of overheads. The profitability margins of the firm also depend upon the type of work undertaken. There will be higher margin in manufacturing of defence equipment's compared to job works execution. The firm imports only titanium from Singapore for the manufacturing purpose. Further the PAT margin of the firm has also increased from 4.29% in FY17 to 5.31% in FY18 on account of decline in depreciation and interest expenses at the back of repayment of vehicle loan.

Comfortable capital structure, improving y-o-y basis
The capital structure marked by debt equity ratio and overall gearing ratio stood at below unity levels and stands comfortable at 0.05x and 0.18x respectively as on March 31, 2018 as compared to 0.12x and 0.20x respectively as on March 31, 2017 due to low debt levels and moderate networth considering the scale of operations. However, the partners withdrew capital of Rs 3.44 crore during FY16 and FY18 which resulted decrease in net worth of the firm.

Comfortable debt coverage indicators although deteriorated in FY18
The total debt to GCA has remained at comfortable and stood at 0.49x in FY18. Furthermore, the PBILDT interest coverage ratio has also stood at comfortable level and decreased from 12.09x in FY17 to 10.53x in FY18, due to decrease in operating profit.

Established relationship with reputed clientele
Operating in the defence and aerospace industry for more than two decades, the firm has cultivated established relationships with its clients. The firm over the years has been manufacturing of various sub-assemblies and spare components used for defence and aerospace projects, such as section to war head of missile (outer structure used for AGNI and PRITHVI), Satellite Separation (used in Geosynchronous Satellite Launch Vehicle (GSLV) and Polar Satellite Launch Vehicle (PSLV)), reaction control system (high pressure), velocity trimming package, control surface, launching pad motors, design of tooling structure to reputed players like ANSP, RCI, ASL, DRDO, DRDL and others.

Favorable industry prospects and support from government
Outlook for the defence industry is positive with the country spending about 1.56 percent of its GDP in the defence sector. Government of India has raised FDI ceiling to 100% (through government approval route only) and in other cases to 49% from the current 26% on a condition that joint ventures for manufacturing of defence equipment will remain in Indian hands which allows the domestic industry to benefit in the areas of design, development and state of the art manufacturing. Further, as per new Defence Procurement Procedure, any contract above Rs.300 crore in the "Buy" and "Buy and Make" categories, offsets corresponding to 30% of the value of the contract are compulsory (which means the vendor has to invest 30% of the total value of the contract in Indian industry so as to have indigenous content in the product). There are revisions made to the DPP which enables the growth of Indian Defence sector resulting in positive outlook of the industry.

Analytical Approach: Standalone

Applicable Criteria

Policy in respect of Non-cooperation by issuer
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short term Instruments
Rating Methodology – Manufacturing Companies
Financial ratios – Non-Financial Sector

About the Firm

Sri Venkateswara Mechanical and Electrical Engineering Industries (SVMEEI) was established in the year 1989 by Mr V. Lakshmi Narayan Reddy as a proprietorship firm. Later, it was converted into partnership firm on November 1st, 1998. Presently, there are three partners i.e. Mr V. Lakshmi Narayan Reddy, Mrs V Indira and Mr C Satyanaraya Reddy. Mr C Satyanaraya Reddy is the Managing Partner of the firm. SVMEEI is mainly engaged in manufacturing of various sub-assemblies and spare components used for defence and aerospace projects,

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	17.72	12.91
PBILDT	1.72	1.48
PAT	0.76	0.69
Overall gearing (times)	0.20	0.18
Interest coverage (times)	12.09	10.53

A: Audited

Status of non-cooperation with previous CRA: Nil

Any other information: Not Applicable

Rating History (Last three years): Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	October-2018	1.34	CARE B; Stable; ISSUER NOT COOPERATING*
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	10.66	CARE B; Stable / CARE A4; ISSUER NOT COOPERATING*
Fund-based - LT-Cash Credit	-	-	-	1.00	CARE B; Stable; ISSUER NOT COOPERATING*

**Issuer did not cooperate; based on based available information*

#updated information not available

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-Term Loan	LT	1.34	CARE B; Stable; ISSUER NOT COOPERATING*	-	1)CARE BB-; Stable; ISSUER NOT COOPERATING* (10-Dec-19)	1)CARE BB-; Stable (06-Sep-18)	1)CARE BB-; Stable (10-Oct-17)
2.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	10.66	CARE B; Stable / CARE A4; ISSUER NOT COOPERATING*	-	1)CARE BB-; Stable / CARE A4; ISSUER NOT COOPERATING* (10-Dec-19)	1)CARE BB-; Stable / CARE A4 (06-Sep-18)	1)CARE BB-; Stable / CARE A4 (10-Oct-17)
3.	Fund-based - LT-Cash Credit	LT	1.00	CARE B; Stable; ISSUER NOT COOPERATING*	-	1)CARE BB-; Stable; ISSUER NOT COOPERATING* (10-Dec-19)	1)CARE BB-; Stable (06-Sep-18)	1)CARE BB-; Stable (10-Oct-17)

**Issuer did not cooperate; based on based available information*

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

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.	Fund-based - LT-Term Loan	Simple
3.	Non-fund-based - LT/ ST-Bank Guarantees	Simple

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

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