

Sree Lakshmi Engineering Works

October 30, 2020

Ratings

Facilities / Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	9.00	CARE C; Stable; ISSUER NOT COOPERATING* (Single C; Outlook: Stable ISSUER NOT COOPERATING*)	Rating continues to remain under ISSUER NOT COOPERATING category and Revised from CARE B-; Stable; ISSUER NOT COOPERATING* (Single B Minus; Outlook: Stable)
Short Term Bank Facilities	1.00	CARE A4; ISSUER NOT COOPERATING* (A Four ISSUER NOT COOPERATING*)	Rating continues to remain under ISSUER NOT COOPERATING category
Total Facilities	10.00 (Rs. Ten Crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE had, vide its press release dated August 05, 2019 placed the rating(s) of Sree Lakshmi Engineering Works (SLEW), under the 'issuer non-cooperating' category as SLEW had failed to provide information for monitoring of the ratings. SLEW continues to be non-cooperative despite repeated requests for submission of information through e-mails, phone calls and emails dated January 2020 to October 14, 2020. 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 revision in the rating takes into account the non-availability of requisite information due to non-cooperation by Sree Lakshmi Engineering Works with CARE's efforts to undertake a review of the outstanding ratings as CARE views information availability risk as key factor in its assessment of credit risk profile.

Detailed description of the key rating drivers

At the time of last rating on August 05, 2019 the following were the rating strengths and weaknesses:

Key Rating Weakness**Small scale of operations**

The firm was established in the year 2001 and despite long track record of the firm for 16 years; its scale of operations remained small as compared to other industry peers marked by total operating income of Rs. 17.19 crore during FY17 and low net worth base of Rs. 3.23 crore as on March 31, 2017 making it vulnerable to fluctuations in the market conditions. Further, the works executed include water supply and road works which are procured from government organizations, representing concentration of revenues.

Leveraged capital structure and weak debt coverage indicators

The capital structure of the firm remained leveraged marked by overall gearing of 3.04 times as on March 31, 2017 on account of high working capital borrowings. Total debt/GCA improved from 13.85x in FY16 compared with 11.37x in FY17 due to increase in gross cash accruals, still remained weak. The PBILDT interest coverage ratio improved from 1.73x in FY16 to 2.15x in FY17 due to increase in PBILDT levels and stood satisfactory.

Elongated working capital cycle days

The operating cycle improved from 345 days in FY16 to 218 days in FY17 due to reduction in average collection period and average inventory days. In spite of improvement, the average collection period stood high at 121 days while inventory holding days stood at 97 days in FY17 primarily due to the delays in payments received from government organizations and higher amount of work in progress as on year ending date. On account of these factors, the firm relies on the bank borrowings for funding their day to day operations and to bridge the gap between the receivables and payables. The average cash credit facility utilization of the firm was 70% for the last 12 months ended November 30, 2017.

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

*Issuer did not cooperate; Based on best available information

Highly fragmented and intensely competitive business segment

SLEW is operating in highly competitive and fragmented industry. The firm witnesses intense competition from both the organized and largely unorganized players. This fragmented and highly competitive industry results into price competition thereby affecting the profitability margins of the companies operating in the industry.

Partnership nature of constitution with inherent risk of withdrawal of capital

Constitution as a partnership has the inherent risk of possibility of withdrawal of the capital at the time of personal contingency which can adversely affect its capital structure. Furthermore, partnership firms have restricted access to external borrowings as credit worthiness of the partners would be key factors affecting credit decision for the lenders.

Key Rating Strengths

Experienced partners in the same line of business for more than a decade

The firm was established and managed by Mr. K. Amarnatha Reddy and his family members with around 14 years of experience in civil contract works. Mr. K. Amarnatha Reddy was handling brick manufacturing business before starting SLEW and has been successfully handling water supply works under Municipal Corporation and Panchayath Raj of Tirupati, Andhra Pradesh since 2001. The industry experience of the partners has helped the firm in procuring contracts from government organizations.

Increasing profitability margins

The PBILDT margin has been increasing y-o-y basis from 6.95% in FY15 to 11.02% in FY17 at the back of execution of projects y-o-y with relatively better profit margins. The PAT margin of the firm has been increased from 0.43% to 4.92% due to increase in PBILDT levels resulting in absorption of financial expenses and depreciation provisions.

Medium term revenue visibility from its current order book position

The firm has satisfactory order book of Rs.50.36 crore as on December 15, 2017, compared with the order book of Rs. 3.48 crore in August 2015 and the same is likely to be completed by September 2018. The said order book is related to laying of pipe lines and water supply works. The current order book is concentrated with two customers namely, The Indian Hume Pipe Co. Ltd and Amanulla Contractor. Furthermore, the firm is expecting one more project of laying pipeline in Ongole from The Indian Hume Pipe Co. Ltd with the project cost of Rs.120 crore.

Analytical Approach: Standalone

Applicable Criteria

[Policy in respect of Non-cooperation by issuer](#)

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

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

[Rating Criteria on Short Term Instruments](#)

[Rating Methodology - Construction Sector](#)

About the Company

Tirupati-based SLEW was established by Mr. K. Amarnath Reddy and his family members in the year 2001 as a partnership concern. The firm is engaged in civil works such as water supply works, laying roads and construction of buildings for government bodies such as Panchayat Raj and Municipal Corporations which are procured through tenders. The firm has executed several contracts since its inception and currently has an order book worth around Rs. 50.36 crore as on December 15, 2017 to be executed by September 2018.

Brief Financials (Rs. crore)	FY16 (A)	FY17(A)
Total operating income	8.32	17.19
PBILDT	0.74	1.61
PAT	0.32	0.84
Overall gearing (times)	1.40	3.04
Interest coverage (times)	1.98	2.52

***A-Audited**

Status of non-cooperation with previous CRA: 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-Bank Overdraft	-	-	-	9.00	CARE C; Stable; ISSUER NOT COOPERATING*
Non-fund-based - ST-Bank Guarantees	-	-	-	1.00	CARE A4; ISSUER NOT COOPERATING*

*Issuer did not cooperate; Based on best available information

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-Bank Overdraft	LT	9.00	CARE C; Stable; ISSUER NOT COOPERATING *	-	1)CARE B-; Stable; ISSUER NOT COOPERATING * (05-Aug-19)	1)CARE B+; Stable; ISSUER NOT COOPERATING * (24-Jan-19)	1)CARE B+; Stable (27-Dec-17) 2)CARE B+; ISSUER NOT COOPERATING * (25-Apr-17)
2.	Non-fund-based - ST-Bank Guarantees	ST	1.00	CARE A4; ISSUER NOT COOPERATING *	-	1)CARE A4; ISSUER NOT COOPERATING * (05-Aug-19)	1)CARE A4; ISSUER NOT COOPERATING * (24-Jan-19)	1)CARE A4 (27-Dec-17)

*Issuer did not cooperate; Based on best 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 Firm**

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Bank Overdraft	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. 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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About CARE Ratings:

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