Sunil Hitech Engineers Limited

February 27, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	509.50 (Enhanced from 389.50)	**CARE A-; Stable [Single A Minus; Outlook: Stable]**	Reaffirmed
Short-term Bank Facilities	558.50 (Enhanced from 408.50)	**CARE A2+ [A Two Plus]**	Reaffirmed
Long/ Short-term Bank Facilities	1,375.00 (Enhanced from 1,125.00)	**CARE A-; Stable/ CARE A2+ [Single A Minus; Outlook: Stable/ A Two Plus]**	Reaffirmed
Total Facilities	**2,443.00 (Rupees Two Thousand Four Hundred and Forty Three only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Sunil Hi Tech Engineers Limited (SHEL) continue to derive comfort from experienced promoters and long track record of operations, healthy outstanding order book position, reputed and diversified client base and diversified presence across different segments of infrastructure sector with strengthened focus on road & civil construction projects.

The ratings further factor in modest growth in revenue during FY17 (refers to the period April 1 to March 31), moderate solvency despite of conversion of share warrants into equity capital and moderate debt coverage indicators.

The ratings continue to remain constrained by working capital intensive nature of operations, susceptibility to delays in projects executed by the company and increasing exposure towards group companies in the form of contingent liability.

The ability of the company to increase the scale of operations on the back drop of cyclicality in the infrastructure sector, maintaining profitability, timely realization of receivables and managing its working capital cycle and exposure towards group companies are the key rating sensitivities. In addition, any deterioration in overall gearing level and debt coverage indicators will also be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Wide experience of the promoters and long track record of operations

SHEL was incorporated in 1984, and is managed by experienced promoters with over decade of exposure into the field of project execution-fabrication, erection, testing and commissioning of power plants. The company is driven by the board of directors, having varied experience in the infrastructure, finance and marketing fields. The management is supported by a team of experienced and qualified professionals.

Reputed and diversified client base in the infrastructure space

SHEL has evolved into a diversified company with a widening presence in EPC across Power, Construction and Infrastructure sector. SHEL has executed projects for marquee clients across the public and private sector comprising NTPC, BHEL, MORTH, NHAI, BSHB, MAHAGENCO, NHIDCL, L&T, JSW, Reliance Infrastructure, etc. Since FY15, SHEL has diversified into high growth sectors in civil engineering like road and bridge building, civil and structural works, etc moderating the exposure to balance of plant power projects.

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

Comfortable order book position providing revenue visibility in the medium to long term

The outstanding order book as on December 31, 2017 stood at Rs 5062 crore (2.41x FY17 total operating income). The comfortable order book position provides medium to long term revenue visibility. However, timely execution of the same would remain crucial for the company going forward.

Sectoral focus and Geographical diversification of operations

SHEL has strengthened its focus towards road construction (61% of FY17 order book), civil and structural works (21%), building (12%) besides its traditional work of installation of boilers and auxiliaries (2% of FY17 order book) and balance of plant works (3%).SHEL has also diversified its geographical reach across 15 states in the country. However, majority of the order book from road sector has resulted in concentration to one segment.

Presence of price escalation clause

The risk arising from potential delays and increase in raw material prices is mitigated to an extent, on account of existence of price escalation in the orders comprising the outstanding order book. As per the terms of the contracts, in case of delays which are due to the client, SHEL is compensated using the consumer price index (CPI) index as a reference in all the contracts.

Infusion of equity by promoters over the years

SHEL's promoters have been infusing fresh equity since FY13 by issuance and conversion of share warrants. During FY17, the company allotted 50,50,000 warrants convertible into equity shares to the promoter group companies. During FY17, the company had also issued and allotted bonus equity shares of Rs 1/- each in the ratio 1:1. Conversion of share warrants resulted in increase in share capital by Rs.13.54 crore in FY17. Further equity infusion of Rs.127crore by conversion of share warrants is expected in FY18, out of which Rs. 45.00 crore has already been infused till Sep. 28, 2017.

Key Rating Weaknesses

Group exposure

SHEL has 7 subsidiaries as on March 31, 2017 and SHEL's exposure to its group companies was significant compared to its net worth and any further increase in the exposure by way of liability would be a key rating sensitivity.

Working capital intensive nature of operations

SHEL's working capital cycle increased to 51 days in FY17 as against 36 days in FY16 on the back of reduction in the creditor days coupled with increase in collection period. The increase in collection period to 97 days in FY17 from 91 days in FY16 was driven by late realizations from both government and private projects.

Moderate financial risk profile marked by modest profitability margins and solvency ratios

During FY17, the total operating income increased by 14% y-o-y to Rs 2102 crore However, the PBILDT margins declined by 133 bps to 9% in FY17 (10.33% FY16) on account of old receivables written off. The overall gearing also deteriorated to 1.94x FY17 (1.78x FY16) on account of additional debt mobilized in FY17 to address large quantum of contracts which translated in a 12.35% increase in interest outflow. PBILDT Interest coverage indicator also deteriorated to 1.96x in FY17 (2.22x FY16). Total debt to GCA also deteriorated to 12.35 times in FY17 as compared to 9.26 times in FY16. Going ahead, gearing levels and total debt to GCA are expected to improve, despite the increase in debt levels required to complete the increased orders, on account of expected equity infusion as well as increased cash accruals. However, the ratings will be reviewed in case of any deterioration in overall gearing level (increase above 1.80 times) and debt coverage indicators (interest coverage below 2 times and total debt to GCA below 9 times).

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings]
[CARE's Policy on Default Recognition]
[Criteria for Short Term Instruments]
[Rating Methodology: Factoring Linkages in Ratings]
[Financial ratios – Non-Financial Sector]

About the Company

SHEL was incorporated as a proprietorship concern under the name of Sunil Engineering Works in 1984 and was reconstituted as a private limited company in 1998. The company changed its name to the current one in August 2005 and came up with maiden offering of equity shares via an Initial Public Offer (IPO) in January 2006. SHEL commenced operations in 1984 as a contractor securing and executing small works of fabrication, erection and other commissioning related works of thermal power plants. Over a period of time, the company has grown as a medium sized player in the infrastructure space and undertakes works related to civil and structural work, transmission and distribution, balance of power plants and operations and maintenance, installation of boilers and auxiliaries, civil and institutional buildings and roads. Since FY15, company selected to focus on road building and civil construction projects while moderating exposure to Balance of Plant power projects.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	1841.17	2101.92
PBILDT	190.24	189.08
PAT	48.11	40.07
Overall gearing (times)	1.78	1.94
Interest coverage (times)	2.21	1.96

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: NA

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

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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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-Cash Credit	-	-	-	439.50	CARE A-; Stable
Non-fund-based - ST-Letter of credit	-	-	-	548.50	CARE A2+
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	1375.00	CARE A-; Stable / CARE A2+
Non-fund-based - ST-Bank Guarantees	-	-	-	10.00	CARE A2+
Fund-based - LT-Term Loan	-	-	June 2020	70.00	CARE A-; Stable

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (23-Apr-15)	1)CARE BBB+ (14-Apr-14)
2.	Fund-based - LT-Cash Credit	LT	439.50	CARE A-; Stable	1)CARE A-; Stable (09-Oct-17)	1)CARE A- (03-Nov-16)	1)CARE A- (04-Aug-15) 2)CARE A- (23-Jul-15) 3)CARE BBB+ (23-Apr-15)	1)CARE BBB+ (14-Apr-14)
3.	Non-fund-based - ST-Letter of credit	ST	548.50	CARE A2+	1)CARE A2+ (09-Oct-17)	1)CARE A2+ (03-Nov-16)	1)CARE A2+ (04-Aug-15) 2)CARE A2+ (23-Jul-15) 3)CARE A2+ (23-Apr-15)	1)CARE A2+ (14-Apr-14)
4.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	1375.00	CARE A-; Stable / CARE A2+	1)CARE A-; Stable / CARE A2+ (09-Oct-17)	1)CARE A- / CARE A2+ (03-Nov-16)	1)CARE A- / CARE A2+ (04-Aug-15) 2)CARE A- / CARE A2+ (23-Jul-15) 3)CARE BBB+ / CARE A2+ (23-Apr-15)	1)CARE BBB+ / CARE A2+ (14-Apr-14)
5.	Non-fund-based - ST-Bank Guarantees	ST	10.00	CARE A2+	1)CARE A2+ (09-Oct-17)	1)CARE A2+ (03-Nov-16)	1)CARE A2+ (04-Aug-15)	-
6.	Fund-based - LT-Term Loan	LT	70.00	CARE A-; Stable	-	-	-	-

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