Sunil Hitech Engineers Ltd. (Revised)

April 20, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities (TL)	20.00 (reduced from 70.00)	**CARE BB; Negative**	**Revised from CARE A-;Stable**
Long-term Bank Facilities (CC)	392.00 (reduced from 439.50)	**CARE BB; Negative**	**Revised from CARE A-;Stable**
Short-term Bank Facilities	421.00 (reduced from 558.50)	**CARE A4**	**Revised from CARE A2+**
Long/Short Term Bank Facilities	1138.00 (reduced from 1375.00)	**CARE BB; Negative /CARE A4**	**Revised from CARE A-;Stable/ CARE A2+**
Long Term Bank Facilities (Proposed Term Loan)	0.00	-	**Withdrawn#**
Long Term Bank Facilities (Proposed Cash Credit)	0.00	-	**Withdrawn#**
Short Term Bank Facilities (Proposed Letter of Credit)	0.00	-	**Withdrawn#**
Long/Short Term Bank Facilities (Proposed Bank Guarantee)	0.00	-	**Withdrawn#**
Total Facilities	**1971.00 (Rs. One thousand Nine hundred and Seventy One crore only)**		

#there facilities are being withdrawn as the limits were proposed and not sanctioned

Details of instruments/facilities in Annexure-1

Detailed Rationale& Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Sunil Hitech Engineers Ltd. (SHEL) factors in the liquidity issues faced by the company on account of inability to tie-up bank lines for working capital requirement, increased delay in payments by clients as well as the ongoing disputes with some of the clients. The ratings also 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.

However, the ratings continue to derive comfort from long track record of operations as well as healthy outstanding order book position.

The ability of the company to improve the liquidity position mainly based on receipt of claims as per the arbitration proceedings as well as by efficiently managing working capital cycle will be the key rating sensitivities.

Outlook: Negative

The outlook has been revised from 'stable' to 'negative' as the liquidity position is expected to worsen further if there is a delay in receipt of claims under arbitration and also if the delay in payment from clients continues.

Detailed description of the key rating drivers

Key Rating Weaknesses

Deterioration in the liquidity position: A combination of increasing working capitals requirements to support increasing turnover and order-book, inability of the company to secure additional bank lines (to fund the same) and slowdown in receipts from clients has resulted in increasing liquidity tightness for the company.

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

Delay in payments by SHEL's clients as well as litigation and arbitration with the clients

Overall debtors' position had been comfortable till the last review exercise. Average collection period for FY17 had increased marginally to 97 days as against 91 days for FY16. Also, as per the data given by the company during the last review, around 51% of debtors as on March 31, 2017 were due for less than 60 days as against 35% as on March 31, 2016. Total debtors as on Sep 30 2017 was Rs. 597 crore as against Rs. 582 crore as on Mar 31, 2017.

SHEL now advised that an amount of Rs. 1,173 crore is involved in litigation and arbitration with various clients. Among them, major client is MAHAGENCO with claim amount of Rs. 787crore. On account of the ongoing litigation and arbitration, such clients have delayed their payments. Till the last review, there was no mention about any arbitration with any of the clients.

There has also been an increased delay in payments from clients leading to liquidity mismatch.

During FY18, the promoters have reportedly infused equity of Rs. 89.30 crore (Rs. 45crore infused till Sep 2017) as against Rs. 126 crore projected at the time of review in September 2017.

Inability to tie-up additional funds - To support the healthy order book and increasing turnover, the company had projected to borrow additional fund based and non-fund based limits. However, the company was not able to tie-up the additional limits resulting in liquidity stress, despite the equity infusion of Rs. 89 crore by promoters during FY18. The existing fund based limit utilization, which remained at an average of 85% for the 12 months during the last review, now appears to been fully utilized as on date. *As per the management, "many of its bankers are in Prompt Correction Action (PCA) because of which they have stopped further lending. Also, banks are being cautious to lend to EPC infrastructure 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) mainly on account of old receivables amounting to Rs 19.50 crore written off. These are old receivables of more than five years which had to be written off as per new accounting policies. During 9MFY18, the company registered total operating income of Rs. 1,663.92 crore (12.20% Y-o-Y increase) as compared to Rs. 1482.93 crore in 9MFY17. SHEL's PBILDT margins were at 9.96% for 9MFY18 as against 10.56% for 9MFY17 and 9.92% for 9MFY18 (before accounting for write-offs). The performance of the company during 9MFY18 has largely been in line with the projected performance for FY18.

Key Rating Strengths

Long track record of operations and comfortable order book position

SHEL was incorporated in 1984 and has a long track record in executing various EPC projects. Its order book increased significantly from Rs. 3,421 crore as on September 2016 to Rs. 5,189crore as on March 31, 2017 and the same has remained strong at Rs. 5,062 crore (2.41x of 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.

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. 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: Not Applicable

Any other information: Not Applicable

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.*

Analyst Contact:
Name: Sharmila Jain
Tel: 022 67543638
Email: sharmila.jain@careratings.com

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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	-	-	-	392.00	CARE BB; Negative
Non-fund-based - ST-Letter of credit	-	-	-	411.00	CARE A4
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	1138.00	CARE BB; Negative / CARE A4
Non-fund-based - ST-Bank Guarantees	-	-	-	10.00	CARE A4
Fund-based - LT-Term Loan	-	-	June 2020	20.00	CARE BB; Negative
Fund-based - LT-Term Loan	-	-	-	0.00	Withdrawn
Fund-based - LT-Cash Credit	-	-	-	0.00	Withdrawn

Non-fund-based - ST-Letter of credit	-	-	-	0.00	Withdrawn
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	0.00	Withdrawn

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)Withdrawn (23-Apr-15)
2.	Fund-based - LT-Cash Credit	LT	392.00	CARE BB; Negative	-	1)CARE A-; Stable (27-Feb-18) 2)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)
3.	Non-fund-based - ST-Letter of credit	ST	411.00	CARE A4	-	1)CARE A2+ (27-Feb-18) 2)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)
4.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	1138.00	CARE BB; Negative / CARE A4	-	1)CARE A-; Stable / CARE A2+ (27-Feb-18) 2)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)
5.	Non-fund-based - ST-Bank Guarantees	ST	10.00	CARE A4	-	1)CARE A2+ (27-Feb-18) 2)CARE A2+ (09-Oct-17)	1)CARE A2+ (03-Nov-16)	1)CARE A2+ (04-Aug-15)
6.	Fund-based - LT-Term Loan	LT	20.00	CARE BB; Negative	-	1)CARE A-; Stable (27-Feb-18)	-	-
7.	Fund-based - LT-Term Loan	LT	-	-	-	-	-	-
8.	Fund-based - LT-Cash Credit	LT	-	-	-	-	-	-
9.	Non-fund-based - ST-Letter of credit	ST	-	-	-	-	-	-
10.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	-	-	-	-	-	-

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 9198190 09839
E-mail: meenal.sikchi@careratings.com

Ms.Rashmi Narvankar
Cell: + 9199675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Ankur Sachdeva
Cell: + 9198196 98985
E-mail: ankur.sachdeva@careratings.com

Mr. Saikat Roy
Cell: + 9198209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 85111-53511/99251-42264
Tel: +91-0172-490-4000/01
Email: anand.jha@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail:pratim.banerjee@careratings.com

CIN - L67190MH1993PLC071691