



## RATING RATIONALE

11 December 2020

### Shalaka Infra Tech (India) Private Limited

Brickwork Ratings reaffirms the rating of BWR BBB with Stable outlook for the existing long term bank limits of ₹ 104.94 Crs. and reaffirms rating of BWR A3+ for short term bank limits of ₹ 105.00 Crs. of Shalaka Infra Tech (India) Private Limited (“SITIPL” or “the Company”).

#### Particulars:

Facility***	Amount (₹ Cr)		Tenure	Rating**	
	Previous	Present		Previous (August 2019)*	Present
Fund based	105.00	104.94	Long Term	BWR BBB/Stable [Reaffirmed]	BWR BBB/Stable [Reaffirmed]
Non Fund based	105.00	105.00	Short Term	BWR A3+ [Reaffirmed]	BWR A3+ [Reaffirmed]
<b>Total</b>	<b>210.00</b>	<b>209.94</b>	<b>INR Two Hundred and Nine Crores and Ninety Four Lakhs Only</b>		

\*Rating was moved to Not Reviewed Category in August 2020.

\*\*Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for definition of the ratings

\*\*\* Details of Bank facilities are provided in Annexure-I.

#### Rating: Ratings reaffirmed

#### RATING ACTION / OUTLOOK

The reaffirmation of the rating continues to take comfort from the established track record of operations and extensive experience of the Company’s promoters in executing electric & civil construction contracts. The rating also factors the healthy unexecuted order book position along with low counterparty credit risk.

Further, the rating is also constrained on account of the slowdown of execution in the projects due to COVID-19 impact and extended monsoon season. The rating is also constrained by the working capital intensive in nature of operations and exposure to volatility in raw material prices along with intense competition from other players in the electric & civil construction sector.

#### Outlook: Stable

The outlook continues to remain “Stable” over the near to medium term owing to the extensive experience of promoters, healthy unexecuted order book position and favourable demand outlook for the power transmission & distribution industry.

## KEY RATING DRIVERS

### Credit Strengths:

- **Established track record of operations and Extensive experience of the promoters in the power transmission & distribution industry**

The Company is promoted by Mr. Ravindra Lunawat who has around twenty five years of experience in the electric & civil construction. He has worked on several projects in the power sector both in India & abroad and also received awards. The Company also benefits from a qualified and experienced management team which has helped the Company to successfully bid for projects and completion of the same within the scheduled timeline.

- **Healthy order book position**

The Company has an healthy unexecuted order book position of Rs. 600.00 crores as on 31.10.2020 and the same is expected to be executed over a period of 30 months; thus providing revenue visibility over the near to medium term. Further, the customer profile of the Company mainly includes various Government and Semi-Government entities of Maharashtra, Madhya Pradesh, Goa, Jammu & Kashmir and Rajasthan thereby reducing the counterparty credit risk. However, the execution of the projects with the stipulated timeline is challenged due to the ongoing COVID-19 pandemic.

### Credit Risks:

- **Slowdown in execution of contracts during the first half of FY21**

The Company has reported slowdown in execution of projects during the first half of FY2021 due to challenges resulting from implementation of lockdown after the outbreak of COVID-19 pandemic and heavy rainfall; however the execution is expected to be ramped up in the second half of FY21. Although the Company has reported revenue of around Rs. 80.00 Crores during the first seven months of FY21 on a provisional basis; it is expected to report decline in revenue for FY21 as compared to FY19.

- **Profitability is exposed to volatility in raw material prices; although built-in price variation clause mitigates the risk to certain extent:**

The profitability of the company is exposed to the volatility in raw material (mainly copper and steel) prices. Although the risk is mitigated to a certain extent by the presence of the price escalation in the current orders in hand. However the price escalation clause is based on the RBI Index and not on the actual variation of the raw material prices. Hence, it does not cover the price fluctuation risk fully.

- **Working capital intensive nature of operations**

The working capital requirement of the Company is higher on account of the stretched receivables days as the same stood at 131 days for FY20(provisional) as against 119 days in FY19. The receivables outstanding also includes a substantial amount of retention money which is released after the completion of the entire project. Hence the Company

is dependent on its creditors as reflected from the high payable days as the same stood at 262 days for FY20(provisional) as against 151 days in FY19. The inventory holding period also increased from 151 days in FY2019 to 166 days in FY2020(provisional) mainly on account of the increase in work in process inventory at the end March 2020 post lockdown. Further, the average cash credit limit utilisation is stretched as the same stood at around 90% for the period from September 2019 to October 2020; however the Company has received enhancement of Rs. 3.50 Crores in its cash credit limit which is yet to be availed and the company also receives mobilisation advance from its customers which is used for working capital purposes.

- **Highly competitive and fragmented industry with tender based nature of operations.**

The Company operates in a highly fragmented and competitive industry with the presence of a large number of electrical contractors. Further, the operations of the Company are tender based in nature wherein the scale of operation is dependent on the successful bidding and receipt of tenders.

#### **ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA**

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale). BWR has principally relied upon the standalone audited financials up to FY19 and provisional financials for FY20, publicly available information and clarification/information provided by the Company.

#### **RATING SENSITIVITIES**

##### **Positive:**

- Timely execution of existing orders along with acquisition of new orders
- Improvement in profitability and capital structure

##### **Negative:**

- Significant decline in operating income and profitability leading to deterioration in debt coverage indicators and liquidity profile of the Company.
- Majorly debt funded capacity expansion plan resulting in highly leveraged capital structure.

#### **LIQUIDITY POSITION: ADEQUATE**

SITIPL has reported net cash accruals of Rs. 16.91 crores for FY 2020 (provisional) as against annual debt repayment obligation of Rs. 5.56 crores for FY2020. The current ratio stood at 1.68 times as on 31.03.2020 (provisional). Going forward, the annual debt obligations are expected to remain in the range of Rs. 15~16 crores over the next three years which can be comfortably met through the net cash accruals. Further, the average cash credit utilisation stood at around 90 percent for the period from September 2019 to October 2020; however the company has received enhancement of Rs. 3.50 crores in February 2020 which is yet to be availed. Further, the Company has availed a moratorium period for six months upto 31st August 2020 under the COVID-19 scheme.



## COMPANY PROFILE

SITIPL was incorporated as a private limited company in the year 2006 after the merger of two proprietorship concerns under the name of “Shalaka Engineering” and “Shalaka Elektrik” formed in 1995. The Company is promoted by Mr. Ravindra Lunawat and his wife Mrs. Swati Lunawat. The Company is presently engaged in executing electrical and civil contracts on a turnkey basis for various Government and Semi-Government bodies as EPC contractor. The Company has also set-up a 15 MW AC / 18MW BC solar power plant at Alair, Nalgonda district, Telangana State and has entered into a power purchase agreement with Southern Power Distribution Company of Telangana Limited to sell the power at quoted tariff of Rs. 5.72 per kWh for a period of 25 years commencing from year 2017. The income from sale of solar power contributed to around 6% to the total operating income whereas the remaining 96% is contributed by EPC contracts.

SITIPL is a registered contractor for civil works & electrical works with the Public Works Department, Government of Maharashtra, Military Engineering Services (MES), Government of India. It is also registered with the Government of Madhya Pradesh, Indore Development Authority and with the Electricity Department of Government of Goa, Telangana, Jammu & Kashmir and Assam. The nature of electrical work undertaken by the Company includes internal & external electrification, substation, grid network, cabling or providing HT , LT power lines. SITIPL is an ISO 9001 - 2008 and OHSAS 18001 certified EPC company. The day to day operations of the Company is handled by Mr. Ravindra Lunawat who has around twenty five years of experience in executing civil & electric contracts.

## KEY FINANCIAL INDICATORS (in ₹ Cr)

Key Parameters	Units	FY2018	FY2019
Result Type		Audited	Audited
Operating Revenue	Rs. Crs	187.13	215.25
EBITDA	Rs. Crs	21.70	30.19
PAT	Rs. Crs	0.04	0.06
Tangible Net worth	Rs. Crs	48.87	48.94
Total Debt/Tangible Net worth (Analysed)	Times	2.39	2.40
Current Ratio	Times	1.09	1.37

As per FY2020 provisional financials, SITIPL has reported an operating income of Rs. 235.55 crores. SITIPL has reported tangible net worth of Rs.48.94 crores as against total debt of Rs.149.03 crores as on 31.03.2020.

## KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED

The terms of sanction include standard covenants normally stipulated for such facilities.

**NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY :** Not Applicable

**RATING HISTORY FOR THE PREVIOUS THREE YEARS [INCLUDING WITHDRAWAL AND SUSPENDED]**

Instrument / Facilities	Current Rating			Rating History		
	Tenure (Long Term/ Short Term)	Amount (₹ Cr)	Rating	2020	23, August, 2019	26 April 2018
Fund Based	Long Term	104.94	BWR BBB/ Stable (Reaffirmed)	-	BWR BBB/Stable (Reaffirmed)	BWR BBB/Stable (Reaffirmed)
Non Fund Based	Short Term	105.00	BWR A3+ (Reaffirmed)	-	BWR A3+ (Reaffirmed)	BWR A3+ (Reaffirmed)
<b>Total</b>		<b>209.94</b>	<b>INR Two Hundred and Nine crores and Ninety Four Lakhs Only</b>			

**COMPLEXITY LEVELS OF THE INSTRUMENTS**

For more information, visit [www.brickworkratings.com/download/ComplexityLevels.pdf](http://www.brickworkratings.com/download/ComplexityLevels.pdf)

**Hyperlink/Reference to applicable Criteria**

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Rating Criteria for Infrastructure Sector](#)

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**Shalaka Infra Tech (India) Private Limited**

**ANNEXURE I**

**Details of Bank Facilities rated by BWR**

<b>Sl. No.</b>	<b>Name of the Bank</b>	<b>Type of Facilities</b>	<b>Long Term (₹ Cr)</b>	<b>Short Term (₹ Cr)</b>	<b>Total (₹ Cr)</b>
1.	Bank of Maharashtra	Cash Credit	18.50	-	18.50
2.		Term Loan	46.85	-	46.85
3.		Letter of Credit	-	20.00	20.00
4.		Bank Guarantee	-	75.00	75.00
5.	State Bank of India	Cash Credit	6.00	-	6.00
6.		Term Loan	33.59	-	33.59
7.		Letter of Credit	-	10.00	10.00
<b>TOTAL</b>					<b>209.94</b>

**Total Rupees Two Hundred and Nine Crores and Ninety Four Lakhs only.**



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