



Press Release
SRI SAI ENTERPRISES
February 10, 2025
Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	95.00	ACUITE BBB Stable Assigned	-
Bank Loan Ratings	100.00	-	ACUITE A3+ Assigned
Total Outstanding Quantum (Rs. Cr)	195.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has assigned its long-term rating of **'ACUITE BBB'** (read as **ACUITE triple B**) and short-term rating of **'ACUITE A3+'** (read as **ACUITE A three plus**) on Rs. 195.00 Cr. bank facilities of Sri Sai Enterprises (SSE). The outlook is **'Stable'**.

Rationale for rating assigned

The rating considers the long-standing experience of the management in the toll collection industry. Further, the rating draws comfort from the robust growth in topline from FY23 onwards on the back of increase in number of contracts. The rating further considers the healthy net worth of the firm with moderate debt protection metrics supported by adequate liquidity and strong cash flows.

However, the rating is constrained by the low operating margins of the business owing to increased competition and significant performance deposit requirements (15 days of cash deposit and 15 days of bank guarantee for one year contract/ 15 days of cash deposit or bank guarantee for three-month contract) which may hinder the revenue growth. Further, the rating also considers the revenue vulnerability to traffic movements and renewal risk pertaining to the shorter period of contracts. The rating also notes the firm's partnership structure, including the risk of capital withdrawal.

About the Company

Established in 2011, Sri Sai Enterprises (SSE) is constituted as a partnership firm, involved in toll collection operations and maintenance of toll plazas on contractual basis for National Highways Authority of India (NHAI). Based out of Kurnool, Andhra Pradesh, the operations of the firm are PAN India in more than 8 states with major exposure in Telangana and Andhra Pradesh. The partners of the firm are Mr. Y Ravi Chandra, Mr. N Raja Sekhar Reddy, M Rajasekhar, K Umamaheswaramma, and Y Meenakshmi.

Unsupported Rating

Not Applicable

Analytical Approach

Acuite has considered standalone business and financial risk profile of the firm to arrive at the rating.

Key Rating Drivers

Strengths

Longstanding experience of management in toll collection business

The firm's partners have more than a decade experience in the toll collection business. The firm has been a pre-qualified bidder under NHAI since 2016, which has provided it with good bidding opportunities. As on December 31, 2024 the firm is operating 33 toll plazas with a total of 52 contracts spread across 8 states. Further, the firm has been recently awarded with toll collection contract for two expressway – Agra-Lucknow & Bundelkhand wherein the firm shall be operating under joint venture structure (JV) with a manpower agency at partnership of 85:15 & 50:50 respectively.

Acuité believes that SSE will benefit from its established position in toll collections business and its strategy of scaling up through successful bids.

Robust growth in scale of operations

The revenue of the firm improved significantly to Rs. 2,374.90 Cr. in FY24 as compared to Rs. 1,792.31 Cr. in FY23 and Rs. 951.29 Cr. in FY22 marking an average growth of almost 58% y-o-y. This achievement is primarily due to the awarding of new contracts supported by strong growth in traffic movements. Till December 31, 2024, the firm has clocked a revenue of Rs. 1,878.42 and currently, majority of its contracts are in Andhra Pradesh and Telangana while the firm also operates in other states like Gujarat, Haryana, Uttar Pradesh, Odisha, etc. The topline also includes force majeure receipts from NHAI of Rs. 9.77 Cr. / Rs. 13.25 Cr. / Rs. 75.37 Cr. in FY24/FY23/FY22. Further, the firm is expecting to receive another Rs. 60 Cr. of force majeure receipts in the near term. Going forward, the firm shall continue to focus on bidding for high value contracts and expressway deals which shall provide healthy revenues.

Acuité believes that the firm's expertise in identifying right tolls based on its extensive surveys and long-standing experience in the business is expected to help them in getting new tender allotments and get repeat/extension on existing contracts leading to sustainable growth in the business.

Healthy financial risk profile

The financial risk profile of SSE is healthy marked by a healthy net worth, low gearing and moderate debt protection metrics. The tangible net worth stood healthy at Rs. 160.93 Cr. as on 31st March 2024, against Rs. 165.32 Cr. as on 31st March 2023. While the short term debt liabilities of the firm increased in FY24 owing to submission of performance deposits on the incremental contracts, the gearing (debt-equity) stood comfortable at 0.68 times in FY24, as against 0.51 times in FY23. Further, the firm is expected to draw a term loan of ~Rs 40 Cr in FY25 towards the stamp duty payment of expressway JVs. Further, interest coverage ratio including interest on capital stood moderate at 3.13 times in FY24 as against 6.10 times in FY23 and debt service coverage ratio stood at 2.42 times in FY24 as against 4.34 times in FY23.

The financial risk profile is expected to remain healthy over the medium term supported by steady cash accruals and absence for significant long-term borrowings by the firm.

Weaknesses

Low Profit Margins

The EBITDA margins of the firm reduced to 1.16 percent in FY24 as compared to 4.70 percent in FY23 and 4.11 percent in FY22 due to increasing competition and weak traffic movements in the country especially North India causing losses on some of their toll plazas in FY24. Acuite understands that the due to competitive nature the average margins in this business ranges between 2-3%, however, the margins in FY22 & FY23 were high on account of better-than-expected recovery in traffic movements post Covid pandemic. Further, the firm recorded an EBITDA margin of 1.63% in 7MFY25.

Large requirements for fund-based limits and bank guarantees may hinder revenue growth

SSE is required to submit 15-days cash deposit as well as 15-days BG for a one-year contract/ 15-days of either cash deposit or BG for a three months contract, to NHAI. This money is released at the end of the tenure of a contract. Any significant rise in the toll contracts would require timely increase in the working capital limits and remains a key rating sensitivity.

Susceptibility of toll collection towards traffic movements along with contract renewal risk

SSE is involved in toll collection on a short term contractual basis for NHAI. The contracts are typically awarded for periods of 3 to 12 months, after which the firm has to bid afresh for the project. This creates a renewal risk for SSE. Additionally, the firm operates entirely on a tender-based business model, making it vulnerable to strong competition from other bidders. The cash flows are solely dependent on toll collections which are subject to fluctuations in traffic volume, economic slowdown, threat from traffic movement to alternate routes and manpower mismanagement. Any events or regulatory changes impacting the traffic could pressure toll collections, thereby, affecting the firm's cash flows.

Risk of capital withdrawal

SSE's constitution as a partnership firm is exposed to discrete risks, including the possibility of withdrawal of capital by the partners. Moreover, the partnership nature partially limits the flexibility to raise the funds vis-a-vis a

limited company.

Acuité believes that any substantial withdrawal of capital by the partners is likely to have an adverse impact on the capital structure.

Rating Sensitivities

- Sustained growth in profitable contracts
- Efficient working capital management for improvement in business and financial risk profile
- Significant movement in the capital structure

Liquidity Position **Adequate**

The firm has an adequate liquidity position marked by sufficient net cash accruals of Rs. 13.69 Cr. in FY24 and Rs. 47.13 Cr. in FY23 as against no maturing debt obligations for the same period. Going forward, the cash accruals of the firm are estimated to remain in the range of around Rs. 20-30 Cr. during FY25-26 against repayment obligations of Rs. 16-18 Cr. for the same period. The average utilisation for the fund-based bank facility is ~72.31 percent and average utilisation for non-fund based facility is ~80.24% for six months ended on December 31, 2024. Further, the NHAI security deposit as on March 31, 2024 stood at Rs. 146.09 Cr. Furthermore, the firm had an unencumbered cash and bank balances of Rs. 22.90 Cr. as on March 31, 2024 and the current ratio stood at 1.55 times as on March 31, 2024.

Outlook: Stable

Other Factors affecting Rating None

Key Financials

Particulars	Unit	FY 24 (Actual)	FY 23 (Actual)
Operating Income	Rs. Cr.	2374.90	1792.31
PAT	Rs. Cr.	12.75	46.08
PAT Margin	(%)	0.54	2.57
Total Debt/Tangible Net Worth	Times	0.68	0.51
PBDIT/Interest	Times	3.13	6.10

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.htm>
- Service Sector: <https://www.acuite.in/view-rating-criteria-50.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History :

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Complexity Level	Rating
HDFC Bank Ltd	Not avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	25.00	Simple	ACUITE A3+ Assigned
Karnataka Bank Ltd	Not avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	75.00	Simple	ACUITE A3+ Assigned
HDFC Bank Ltd	Not avl. / Not appl.	Secured Overdraft	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	5.00	Simple	ACUITE BBB Stable Assigned
Karnataka Bank Ltd	Not avl. / Not appl.	Secured Overdraft	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	5.00	Simple	ACUITE BBB Stable Assigned
Karnataka Bank Ltd	Not avl. / Not appl.	Working Capital Demand Loan (WCDL)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	65.00	Simple	ACUITE BBB Stable Assigned
HDFC Bank Ltd	Not avl. / Not appl.	Working Capital Demand Loan (WCDL)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	20.00	Simple	ACUITE BBB Stable Assigned

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About Acuité Ratings & Research

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