

Press Release

Suryodaya Infra Projects (I) Private Limited

December 23, 2020

Rating Upgraded & Assigned



Total Bank Facilities Rated*	Rs. 67.00 Cr. (Enhanced from Rs.20 Cr)
Long Term Rating	ACUITE BBB- / Outlook: Stable (Upgraded)
Short Term Rating	ACUITE A3 (Upgraded)

* Refer Annexure for details

Rating Rationale

Acuite has upgraded the long-term rating to '**ACUITE BBB-**' (read as **ACUITE Triple B Minus**) from '**ACUITE BB-**' (read as **ACUITE Double B Minus**) and the short term rating to '**ACUITE A3**' (read as **ACUITE A three**) from '**ACUITE A4+**' (read as **ACUITE A Four Plus**) on the Rs. 67.00 Crore bank facilities of Suryodaya Infra Projects (I) Private Limited (SIPPL). The outlook is '**Stable**'.

The rating was earlier '**Indicative**' as per the press release dated 2nd January, 2020 on account of information risk. The company has now cooperated with Acuite for the review.

Established in 2008, Suryodaya Infra Projects (I) Private Limited (SIPPL) is based in Hyderabad (Telangana) and engaged in various civil construction activities primarily related to Roads & bridges, irrigations, buildings amongst others for both public and private sector. SIPPL, a Class I contractor, is promoted and managed by Mr. B Rajendra Prasada Rao, who has around 3 decades of experience in civil construction segment.

Analytical Approach

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

Key Rating Drivers

Strengths

• Promoters' extensive industry experience and healthy order book providing long term revenue visibility

SIPPL, a Class I civil contractor, has established presence in executing projects related to primarily roads & bridges, irrigations, buildings amongst others for both public and private sector. Mr. B Rajendra Prasada Rao, the managing director of SIPPL, has 30 years of experience in the line of civil construction. With the promoters' extensive industry experience and timely execution of its past projects, SIPPL has been able to establish long-standing relationship with various private companies such as Tata Projects Limited, Sterlite Technologies Ltd, etc; PSU companies such as NMDC Limited, BHEL, NTPC Limited, etc and government bodies such as Greater Hyderabad Municipal Corporation (GHMC), National Highways & Infrastructure Development Corporation Ltd, and Telangana State Mineral Development Corporation (TSMDC) amongst others. As on September 30, 2020, SIPPL has an unexecuted order book position of approx. Rs.499.80 Cr; estimated to be executed over the next 24-36 months providing long-term revenue visibility. The outstanding order book is 5.4x of the FY2020 revenue of Rs.92.18 Cr (provisional). Apart from the above order book, SIPPL has submitted tender for projects worth Rs.53.25 Cr for NMDC Limited. Additionally, SIPPL has 3 tenders wherein letter of award (LOA) is pending for projects worth Rs.9.85 Cr. Acuite believes that the promoters' extensive industry experience and established relation with its principal contractors will aid SIPPL's business risk profile over the medium term.

• **Improving scale of operations yet declining operating margins; no adverse impact of Covid-19**

SIPPL's scale of operations has been improving from Rs.50.85 Cr in FY2018 to Rs.92.18 Cr in FY2020 on provisional basis on account of timely execution of its improving order book. Regardless, the operating margins have been on a declining trend since last 3 years ending FY2020 from 13.28 percent in FY2018, 10.96 percent in FY2019 and 10.55 percent in FY2020 due to substantial exposure towards sub-contract work from PSUs and direct contracts from private companies. It further sub-contracts 25-30 percent of its work leading to comparatively lower margins. Despite outbreak of COVID-19 resulting into lower construction activities in the period April-July of 2020, SIPPL has booked revenue of Rs.51.74 Cr till October 2020 against Rs.26.65 Cr for the same period of last FY; y-o-y higher by 94 percent. The operating margins were lower by merely 50 bps at 10.6 percent. The margins have been marginally lower due to continuous fixed cost been incurred even in the non-operational months. Acuite believes that the scale of operations will continue showing substantial growth over the medium term resulting from the execution of its healthy order book. The operating margins are expected to remain at FY2020 levels and not decline further due to considerable portion of its order book (60 percent) being from the central government or World Bank funded direct government-floated tenders at higher margins.

• **Moderate geographical concentration in unexecuted order book; gradual shift towards execution of contracts possessing longer tenure (>9 to 12M)**

SIPPL has executed projects Pan India. Its present unexecuted order book of Rs.499.80 Cr too is moderately diversified across 7 geographies with highest exposure to National Highways and Infrastructure Development Corporation Limited (NHIDCL) project awarded in West Bengal worth Rs.240.3 Cr, which was awarded in July 2020 and is expected to be completed by July 2025. Out of the total outstanding orders of Rs.499.8 Cr as on September 2020, 48 percent of orders is from WB, 26.3 percent from Andhra Pradesh, 17.5 percent from Telangana and remaining from other states like Karnataka, New Delhi, Chhattisgarh and Tamil Nadu; thereby signifying moderate geographical concentration in revenue profile. SIPPL has lately started bidding for projects possessing tenure more than 9 to 12 months; which assures long-term revenue visibility. Acuite believes that management's approach towards executing projects in various geographies of longer tenure provides will not only bolster the scale of operations; will also ensure moderate geographical concentration and assure long term revenue visibility.

• **Above-average financial profile**

SIPPL's financial risk profile is above-average, marked by healthy capital structure yet above-average debt protection metrics. SIPPL has comfortable net worth at Rs. 27.46 Cr as on March 31, 2020 (Provisional) as against Rs.22.98 Cr as on March 31, 2019 due to improving profitability. Comfortable net worth and moderate debt resulted in healthy gearing (debt-to-equity) and total outside liabilities to tangible networth (TOL/TNW) ratio of 0.14 times and 0.71 times, respectively, as on March 31, 2020 (Provisional) vis-à-vis 0.40 times and 0.87 times March 31, 2019. Debt protection metrics were above-average, reflected in interest coverage (ICR) and net cash accrual to total debt ratio (NCA/TD) of 5.10 times and 1.75 times, respectively, in FY2020 (provisional) vis-à-vis 4.36 times and 0.61 times for FY2019. Acuite believes that in the absence of any major debt-funded capital expenditure plan in near term; improving cash accruals supported by lower reliance on fund-based debt will lead to above-average financial risk profile over the medium term.

Weaknesses

• **Mix of sub-contract/direct work from private companies and PSUs + Tender based for direct government contracts**

SIPPL executes contracts awarded through sub-contract as well on a tender basis. It executes projects awarded by PSUs on sub-contracts basis and direct contracts from private companies. Additionally, it also executes tender based projects awarded by various government bodies. Under tender based projects - Once the tender is allotted, EMD of 5-7.5 per cent is deposited. The company raises bills on monthly basis. SIPPL has the option of availing mobilization advance but refrains from the same due to high interest costs of 10-18 percent. The retention money is usually 5-10 per cent of the contract value which is released after a defect liability period of 1-3 years; which is usually the O&M of the project. Since, the nature of operations is partially tender based, the business depends on the ability to bid for contracts successfully. SIPPL has success rate of 70 to 80 percent in bidding. SIPPL's revenue and profitability are susceptible to risks inherent in contract based operations. Also, Tender based

operations limit pricing flexibility in an intensely competitive industry. As per the present unexecuted order book of Rs.499.8 Cr, ~40-45 percent of projects are from PSUs on sub-contract basis and direct contracts from private companies and remaining 55-60 percent from direct tenders from government bodies. Acuite believes that SIPPL's revenue and profitability are susceptible to risks inherent in tender based operations which limit pricing flexibility in an intensely competitive industry as well from the reasonable exposure of the order book from private companies and sub-contracted orders from PSUs.

• **Working capital operations marked by moderate GCA days**

SIPPL's working capital cycle is marked by moderate gross current assets (GCA) days in the range of 114-186 days over the last 3 years ending March 31, 2020. The GCA days are marked by low inventory days and moderate debtor days. The GCA days include the other current asset portion in the form of security deposits, retention money and EMD which manifests GCA days at slightly elevated levels. The inventory days and debtor days were at 25 days and 47 days, respectively, as on March 31, 2020 (Provisional). These are partially offset by moderate creditor days at 76 days as on March 31, 2020 (provisional). It pays the RM creditors within 30-60 days; however, certain portion pertain to expenses payable to sub-contractors too. The moderate GCA cycle has led to average utilization of 89.70 percent of bank lines of Rs.7.00 Cr over the past 12 months ending October, 2020. Acuite believes that the operations of the SIPPL will remain moderately working capital intensive on account of continuous submission of security deposits and retention money.

Liquidity Position: Adequate

SIPPL's liquidity is adequate, marked by fully utilized bank lines (though relatively lower dependence on fund-based debt vis-a-vis its total operating income), adequate net cash accruals against its negligible debt obligations, moderate current ratio and promoter fund support in the form of unsecured loans. SIPPL generated cash accruals of Rs.6.48 Cr in FY2020 (provisional) against debt obligations of Rs.0.58 Cr for the same period. The cash accruals of the company are estimated to remain in the range of around Rs.7.5 – 11.50 Cr during FY2021-23 against negligible repayment obligations in the range of Rs.0.20 – 1.08 Cr for the same period. The average fund-based working capital utilization stood at 89.70 percent for the past 12 months ended October, 2020. SIPPL has managed to grow its scale for the last 5 years at healthy pace without any enhancement in fund-based bank lines. It relatively has lower dependence on fund-based debt to achieve the present scale of operations. The TOI/CC limits is 13 times based on FY2020 revenue as against peers being at 5-11 times. The company has maintained low unencumbered cash and bank balances over the last three years ending March 31, 2020. The cash and bank balance as on March 31, 2020 stood at Rs.0.28 Cr (Provisional). The current ratio stood at 2.26 times as on March, 2020 (Provisional). The liquidity is sided by promoters' fund support in the form of unsecured loans. SIPPL's unsecured loan increased as on March 31, 2020 to Rs.2.07 Cr from Rs.0.16 Cr as on previous year. Acuite believes that SIPPL's liquidity will remain adequate over the medium term backed by lower reliance on debt and moderate accruals.

Rating Sensitivities

- Timely execution of its order book leading to substantial improvement in scale of operations while maintaining profitability margins over the medium term
- Stretch in working capital cycle leading to increase in working capital borrowing and weakening of financial risk profile and liquidity.

Outlook: Stable

Acuite believes that SIPPL will continue to benefit over the medium term due to its experienced management and healthy order book providing long term revenue visibility. The outlook may be revised to 'Positive', in case of timely execution of its unexecuted order book leading to higher-than-expected revenues and profitability with improvement in working capital management. Conversely, the outlook may be revised to 'Negative' in case SIPPL registers lower-than-expected decline in revenues and profitability or any significant stretch in its working capital management or larger-than-expected debt-funded capital expenditure leads to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Prov)	FY19 (Actual)
Operating Income	Rs. Cr.	92.18	86.08
PAT	Rs. Cr.	4.49	3.61
PAT Margin	(%)	4.87	4.20
Total Debt/Tangible Net Worth	Times	0.14	0.40
PBDIT/Interest	Times	5.10	4.36

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

None

Any other information

None

Any Material Covenants

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Entities In Services Sector - <https://www.acuite.in/view-rating-criteria-50.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-51.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
January 02, 2020	Cash Credit	Long Term	8.00	ACUITE BB- Issuer not co-operating
	Bank guarantee/Letter of Guarantee	Short Term	10.50	ACUITE A4+ Issuer not co-operating
	Letter of Credit	Short Term	1.50	ACUITE A4+ Issuer not co-operating
October 08, 2018	Cash Credit	Long Term	8.00	ACUITE BB- Issuer not co-operating
	Bank guarantee/Letter of Guarantee	Short Term	10.50	ACUITE A4+ Issuer not co-operating
	Letter of Credit	Short Term	1.50	ACUITE A4+ Issuer not co-operating
May 16, 2017	Cash Credit	Long Term	8.00	ACUITE BB- Issuer not co-operating
	Bank guarantee/Letter of Guarantee	Short Term	10.50	ACUITE A4+ Issuer not co-operating
	Letter of Credit	Short	1.50	ACUITE A4+

		Term		Issuer not co-operating
January 19, 2016	Cash Credit	Long Term	8.00	ACUITE BB-/Stable (Assigned)
	Bank guarantee/Letter of Guarantee	Short Term	10.50	ACUITE A4+ (Assigned)
	Letter of Credit	Short Term	1.50	ACUITE A4+ (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE BBB-/Stable (Upgraded)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	23.00	ACUITE A3 (Upgraded)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A3 (Upgraded)
Proposed Long term bank Facility	Not Applicable	Not Applicable	Not Applicable	22.00	ACUITE BBB-/Stable (Assigned)

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President – Corporate Ratings Tel: 022-49294041 aditya.gupta@acuite.in Neha Agarwal Senior Analyst - Rating Tel: 040-4004 2327 neha.agarwal@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research:

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