

Press Release

SS Rail Works Private Limited (SSRW)

19 January, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 30.00 Cr.
Long Term Rating	SMERA BBB-/Stable (Assigned)
Short Term Rating	SMERA A3 (Assigned)

* Refer Annexure for details

Rating Rationale

SMERA has assigned long term rating of '**SMERA BBB-**' (read as SMERA triple B minus) and short term rating of '**SMERA A3**' (read as SMERA A three) on the Rs. 30.00 crore bank facilities of SS Rail Works Private Limited (SSRW). The outlook is '**Stable**'.

SS Rail Works Private Limited (SSRW), a Hyderabad-based company, was incorporated in 2014 by Mr. Srinivasulu Reddy Annamreddy, Mrs. Padmavathi Annam Reddy, Mr. Venkat Manish Reddy Annamreddy and Ms. Sree Manmitha Ammanreddy (Directors).

The company was established to take over the existing business of S & S Enterprises (established in 1995 as a proprietorship concern of Mr. Srinivasulu Reddy Annamreddy). The company was initially engaged in the manufacturing of electronic items for the Railways. Later in 2003, it undertook contracts for railway signaling and thereafter for setting up of electronic interlocking systems at railway stations.

Key rating drivers

Strengths

Experienced management: Mr. Srinivasulu Reddy Annam Reddy, Promoter, has experience of over two decades in the industry. The extensive experience has helped the company forge long term relations with reputed clients such as Indian Railways and benefit from orders for ~24 states. SMERA believes that the extensive experience will benefit the company in the near to medium term.

Increasing revenue trend and healthy order book: The revenues increased to Rs.63.71 crore in FY2017 from Rs.46.91 crore in FY2016 and Rs.23.71 crore in FY2015 due to large order book from the railways. As on 15 January, 2018, the company has pending order book of ~Rs.184.94 crore and has achieved revenue of ~Rs.56.44 crore from April to December, 2017 (Provisional).

The Interest Coverage ratio stood comfortable at 6.74 times in FY2017 and 7.52 times in FY2016.

Moderate financial risk profile: The company's networth stood low at Rs.5.39 crore as on 31 March, 2017 compared to Rs.3.33 crore as on 31 March, 2016. The gearing stood low at 0.75 times as on 31 March, 2017. The total debt of Rs.4.03 crore includes long term loans of Rs.0.39 crore and short term borrowings of Rs.3.14 crore. The total outstanding liabilities to tangible networth ratio stood high at 3.63 times as on 31 March, 2017 as against 2.94 times in the previous year. The management infused fresh capital of Rs.2.10 crore as on 12 January, 2018. SMERA believes that infusion of funds and retention of profits in the business is likely to moderate the total outstanding liabilities to tangible networth ratio.

Weaknesses

Working capital intensive operations: The operations are working capital intensive with high Gross Current Asset of 139 in FY2017 and 96 days in FY2016. The increase in GCA is on account of increased debtors of 43 days in FY2017 compared to 17 days in FY2016. Besides increasing debtors, the company has to maintain substantial security and earnest money deposits with Indian railways which also leads to high GCA days. Apart from bank funding, the working capital requirement is also supported by credit extended from suppliers (around 92 days in FY2017)

SMERA believes that the efficient working capital management will be crucial to the company in maintaining a stable credit profile.

About the Rated Entity – Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	63.71	46.91	23.71
EBITDA	Rs. Cr.	5.03	2.83	1.89
PAT	Rs. Cr.	3.12	2.56	1.56
EBITDA Margin	(%)	7.90	6.03	7.97
PAT Margin	(%)	4.90	5.47	6.59
ROCE	(%)	67.27	54.71	78.96
Total Debt/Tangible Net Worth	Times	0.75	0.74	1.25
PBDIT/Interest	Times	6.74	7.52	4.84
Total Debt/PBDIT	Times	0.80	0.87	1.48
Gross Current Assets (Days)	Days	130	96	116

Any other information: Not Applicable

Applicable Criteria

- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Outlook- Stable

SMERA believes that SSRW will maintain a stable outlook over the medium term on account of its experienced management. The outlook may be revised to 'Positive' in case the company registers substantial growth in scale of operations while achieving healthy profit margins and managing its working capital efficiently. The outlook may be revised to 'Negative' in case of steep decline in revenues, profitability or elongation in its working capital cycle translating to deterioration in its financial risk profile.

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

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

CRISIL Ratings in its press release dated April 29, 2017 inter alia has stated the following: Despite repeated attempts to engage with the management, CRISIL failed to receive any information on either the financial performance or strategic intent of S and S Enterprises - Hyderabad. This restricts CRISIL's ability to take a forward looking view on the credit quality of the entity. CRISIL believes that the information available for S and S Enterprises - Hyderabad is consistent with 'Scenario 1' outlined in the 'Framework for Assessing Consistency of Information with CRISIL B rating category or lower.' Based on the last available information, CRISIL has downgraded the rating to CRISIL B/Stable/CRISIL A4.

Rating History (Upto last three years): Not Applicable

Analytical approach: SMERA has considered the standalone financial and business risk profiles of the company to arrive at the ratings.

Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	NA	NA	NA	2.00	SMERA BBB-/Stable
Bank Guarantee**	NA	NA	NA	13.00	SMERA A3
Bank Guarantee (Proposed)	NA	NA	NA	15.00	SMERA A3

** Sublimit of BG is LC of Rs.1.00 crore. Facility upto Rs.1.30 crore from BG can be utilised for CC.

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ABOUT SMERA

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