

Press Release

SS Rail Works Private Limited

April 06, 2021

Rating Upgraded



Total Bank Facilities Rated*	Rs.30.00 Cr.
Long Term Rating	ACUITE BBB / Outlook: Stable (Upgraded from ACUITE BB+)
Short Term Rating	ACUITE A3+ (Upgraded from ACUITE A4+)

* Refer Annexure for details

Rating Rationale

Acuite has upgraded the long term rating to '**ACUITE BBB**' (read as **ACUITE triple B**) from '**ACUITE BB+**' (read as **ACUITE double B plus**) and the short term rating to '**ACUITE A3+**' (read as **ACUITE A three plus**) from '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs.30.00 Cr. bank facilities of SS Rail Works Private Limited (SSRW). The outlook is '**Stable**'.

Rationale for Upward Revision in Ratings

The rating was earlier downgraded & marked as 'Indicative' as per the press release dated December 31, 2019 on account of non-cooperation resulting in information risk. The company has now cooperated with Acuite for the review.

The rating upgrade is further on account of improvement in business risk profile supported by significant growth in scale of operations, strong order book providing revenue visibility and marginal impact of Covid-19.

This is reflected in improvement in revenues at a CAGR of 40.19 percent during the 2017-20 period. Growth in scale of operations is further supported by strong order book in hand of ~Rs.642.00 Cr. as on January 31, 2021 with ~80 percent is expected to be executed in the next 3 years, giving revenue visibility in near to medium term. Further, the rating remains constrained on account of marginal deterioration gearing and deteriorating coverage indicators.

About the Company

Hyderabad based SSRW was incorporated in 2014 by Mr. Srinivasulu Reddy Annamreddy and managed along with Mrs. Padmavathi Annam Reddy, Mr. Venkat Manish Reddy Annamreddy and Ms. Sree Manmitha Ammanreddy. The company was incorporated to take over the existing business of S & S Enterprises which was established in 1995 as a proprietorship concern by Mr. Srinivasulu Reddy Annamreddy. The company is engaged in Procuring, Manufacturing and executing Signalling and Telecom infrastructure contracts on job work basis for entities working in Railways sector.

Analytical Approach

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

Key Rating Drivers

Strengths

• Healthy business risk profile supported by growth in scale of operations and experienced management

SSRW was initially established as a proprietorship concern in 1995 by Mr. Srinivasulu Reddy Annamreddy. Currently, SSRW as a private limited entity is managed by Mr. Srinivasulu Reddy Annamreddy, Mrs. Padmavathi Annam Reddy, Mr. Venkat Manish Reddy Annamreddy and Ms. Sree Manmitha Ammanreddy. They have an operational track record of more than two decades in this sector. SSRW was initially engaged in the manufacturing of electronic items for the entities in Railways sector.

Currently, it is engaged in Procuring, Manufacturing and executing Signalling and Telecom infrastructure contracts on job work basis for entities working in this sector. The promoters' partners' longstanding experience has helped SSRW in securing repeated orders from the Indian Railways and private sector

entities.

SSRW reported a compound annual growth rate (CAGR) in its revenue of ~40.19 percent during the FY2017-20 period, with a revenue of Rs.175.50 Cr. in FY2020 as against Rs.181.20 Cr. in FY2019 and Rs.86.33 Cr. in FY2018. The growth in revenues is supported by increased capability to execute orders. This is reflected in its operating (EBITDA) margins of 9.75 percent in FY2020 as against 8.18 percent in FY2019, while maintaining stable PAT margins of 5.70 percent in FY2020 as against 5.01 percent in FY2019.

SSRW's ability to efficiently utilise its asset base has resulted in strong ROCE (Return on Capital Employed) of 37.81 percent in FY2020.

Further, SSRW has been able to overcome the impact of Covid-19 as reflected in its 11MFY21 revenue of Rs.153.94 Cr. which is expected to surpass FY2020 revenue in FY2021.

Acuite believes that SSRW will continue to benefit from the promoters' experience in the industry, its established presence and improving business risk profile which is expected to be supported by sustainable growth in revenue and profitability margins along with the increasing demand and infrastructure development in railways sector over the medium term.

- **Reputed Clientele and strong order book position**

SSRW caters mainly to the Indian railways and reputed entities in this sector such as Siemens. It has an order book of ~Rs.642.00 Cr. as on January 31, 2021 with ~80 percent is expected to be executed in next 3 years, giving revenue visibility in near to medium term. Over the years, SSRW has developed long standing relationships with its reputed clients thus giving revenue visibility in the near to medium term. SSRW caters mainly to the Indian railways and private sector entities in similar line of business.

Acuite believes that its reputed clientele along with strong order book position will complement its healthy business risk profile going forward.

- **Moderate working capital requirements**

SSRW's working capital requirements remain moderate marked by Gross Current Asset (GCA) of 140 days in FY2020 as against 63 days in FY2019. The increase in GCA days was attributed to change in accounting policy of reclassification of security deposits as current assets from non-current assets, which has been realised by the company more than 90 percent.

The inventory holding period and debtors collection period has increased to 13 days and 34 days in FY2020 as against 7 days in FY2019 respectively, as against 7 days of inventory holding period and debtors collection period in FY2019.

Nonetheless, the creditors payment period remain stable at 89 days in FY2020 and in FY2019. The average utilisation of its fund based facilities stood at ~90 percent while the non-fund based facilities remain near 85-90 percent utilised for the 6 month period ended February 2021.

Weaknesses

- **Moderate financial risk profile**

SSRW's financial risk profile stands moderated marked by improvement in tangible net worth, deteriorating gearing and deteriorating debt protection metrics.

The tangible net worth of the company strengthened to Rs.30.59 Cr. as on March 31, 2020 as against Rs.20.58 Cr. as on March 31, 2019 on account of accretion of profits to reserves. SSRW follows a moderately aggressive financial policy as reflected by increase in Gearing (Debt to Equity) to 0.90 times as on March 31, 2020 as against 0.70 times as on March 31, 2019. The debt profile majorly comprises of short term and medium term working capital facilities of Rs.25.69 Cr., unsecured loans from promoters and minor long term debt obligations with a total debt of Rs.27.51 Cr. as on March 31, 2020. The TOL/TNW (Total Outside Liabilities to Tangible Net Worth) stands at 2.06 times as on March 31, 2020.

The coverage indicators remained moderate while deteriorating on Y-O-Y basis. The Interest Coverage Ratio (ICR) stood at 4.20 times in FY2020 as against 6.87 times in FY2019, while the Debt-Service Coverage Ratio (DSCR) stood at 3.17 times in FY2020 as against 3.76 times in FY2019. Similarly, The NCA/TD (Net Cash Accrual to Total Debt) too has deteriorated to 0.37 times in FY2020 as against 0.64 times.

Acuite believes that further deterioration in debt protection metrics could impede the stability of financial risk profile of SSRW. The sustainability in the coverage indicators supported by strengthening of net worth remains a key monitorable.

- **Highly competitive industry, Tender based nature of operations and customer concentration risk**

SSRW operates in highly fragmented industry and faces competition from large number of organized, integrated and unorganized players catering to the Indian Railways. Further, its revenues solely depend on the plans, policies and expenditure / expansion budget drawn up by Indian Railways thus resulting in the concentration risk in its customer profile which ultimately serve Indian Railways.

Furthermore, risk becomes more pronounced as tenders are based on the minimum amount of bidding of contracts. However, the risk is mitigated to an extent as the management has been operating in the industry for more than 2 decades.

Liquidity position: Adequate

SSRW has adequate liquidity position marked by healthy Net Cash Accruals vis-à-vis its maturing debt obligations. SSRW generated NCA of Rs.10.27 Cr. during the FY2020 while its maturing debt obligations stood at less than Rs.1.00 Cr in FY2020, further the realisation of security deposits from railways has further strengthened the liquidity of the company to meet working capital requirements including short term repayment obligations. The cash accruals of the company are expected to remain in the range of Rs.10.00 – Rs.15.00 Cr. in near term. Further, SSRW maintains unencumbered cash and bank balance of Rs.1.86 Cr. as on March 31, 2020. The reliance on working capital limits nonetheless remain moderate to aggressive with average utilisation of its fund based facilities at ~90 percent and the non-fund based facilities at 85-90 percent being utilised for the 6 month period ended February 2021.

Acuite believes that liquidity of the company will remain adequate supported by improving net cash accruals and declining debt obligations. However, the management of working capital requirements in the near to medium term, will remain a key rating sensitivity factor amidst the growing scale of operations and the impact of Covid-19.

Rating Sensitivities

- Significant improvement in scale of operations while maintaining its profitability margins.
- Further deterioration in debt protection metrics impeding the stability of financial risk profile.
- Deterioration in the working capital cycle leading to stress on the debt protection metrics or the liquidity position of the company.

Material Covenants

None

Outlook: Stable

Acuite believes that SSRW will maintain a 'Stable' outlook in the near to medium term on account of its experienced management and established track record of operations. The outlook may be revised to 'Positive' if the company registers higher-than-expected growth in revenues, profitability margins and net cash accruals while maintaining/improving its debt protection metrics and financial risk profile. The outlook may be revised to 'Negative' in case the company registers substantial decline in revenues or profitability margins or if the financial risk profile deteriorates due to higher than expected working capital requirements resulting in deterioration of the capital structure.

About the Rated Entity – Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	175.50	181.20
PAT	Rs. Cr.	10.00	9.07
PAT Margin	(%)	5.70	5.01
Total Debt/Tangible Net Worth	Times	0.90	0.70
PBDIT/Interest	Times	4.20	6.87

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>

- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-51.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.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
31-Dec-2019	Cash Credit	Long Term	2.00	ACUITE BB+ / Stable (Downgraded & Indicative)
	Bank Guarantee	Short Term	13.00	ACUITE A4+ (Downgraded & Indicative)
	Proposed Bank Guarantee	Short Term	15.00	ACUITE A4+ (Downgraded & Indicative)
09-Apr-2019	Cash Credit	Long Term	2.00	ACUITE BBB- (Indicative)
	Bank Guarantee	Short Term	13.00	ACUITE A3 (Indicative)
	Proposed Bank Guarantee	Short Term	15.00	ACUITE A3 (Indicative)
19-Jan-2018	Cash Credit	Long Term	2.00	ACUITE BBB- / Stable (Assigned)
	Bank Guarantee	Short Term	13.00	ACUITE A3 (Assigned)
	Proposed Bank Guarantee	Short Term	15.00	ACUITE A3 (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	12.65%	Not Applicable	2.00	ACUITE BBB / Stable (Upgraded)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	25.00 (Revised from 13.00)	ACUITE A3+ (Upgraded)
Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	3.00 (Revised from 15.00)	ACUITE A3+ (Upgraded)

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About Acuité Ratings & Research:

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