

Press Release

SS Rail Works Private Limited

September 17, 2021

Reaffirmed & Assigned



Total Bank Facilities Rated*	Rs.70.00 crore (Enhanced from Rs.30.00 Cr)
Long Term Rating	ACUITE BBB / Stable (Reaffirmed & Assigned)
Short Term Rating	ACUITE A3+ (Reaffirmed & Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed and assigned its long term rating of '**ACUITE BBB**' (read as **ACUITE BBB**) and the short term rating of '**ACUITE A3+**' (read as **ACUITE A three plus**) on the Rs.70.00 Cr bank facilities of SS Rail Works Private Limited (SSRW). The outlook is '**Stable**'.

The rating reaffirmation takes into account its experienced management, sustainable business risk profile, strong order book and moderate financial risk profile and working capital management. These strengths are partially offset by customer concentration risk and susceptibility to tender-based nature of operations and intense competition.

About the Company

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. Manmitha Ammanreddy. SSRW was established to take over the existing business of S&S Enterprises established in 1995 as a proprietorship concern of Mr. Srinivasulu Reddy Annamreddy. SSRW is engaged in the business of executing engineering, procurement and construction (EPC) for in railway related works primarily of signalling and Telecommunication Infrastructure. SSRW executes majorly tender-based projects from Indian Railways. SSRW generates 95 per cent of its revenue from execution of contracts while 5 per cent of the revenue is generated from services such as after sales services and annual maintenance contracts.

Analytical Approach

Acuite has considered the standalone view of the financial and business risk profile of SS Rail Works Private Limited to arrive at this rating.

Key Rating Drivers

Strengths

- **Experienced management and sustainable business risk profile supported by consistent growth in scale of operations**

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. 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).

SSRW executes majorly tender based projects from Indian railways. The promoters' long standing experience has helped SSRW in securing repeated orders from the Indian Railways. SSRW reported a compound annual growth rate (CAGR) in its revenue of ~3.4 percent during the FY2018-21 period, with revenue of Rs.194.20 Cr. in FY2021 (provisional) as against Rs.175.50 Cr. in FY2020 and Rs.181.20 Cr. in FY2019. The growth in revenues is on account of increase in execution of its healthy order book. This is reflected in its operating (EBITDA) margins of 10.19 percent in FY2021 (Prov) as against 9.75 percent in FY2020, while the PAT margins stood at 6.65 percent in FY2021 (Prov) as against 5.70 percent in FY2020. The company's ability to efficiently utilise its asset base has resulted in strong ROCE (Return on Capital Employed) of 31.70 percent in FY2021 (Prov). 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 has an order book of ~Rs548.00 Cr which is expected to be executed over the next 2-3 years. The order book is 3 times of the FY2021 (Prov) revenue. Over the years, the company has developed long standing relationship with its reputed clients, thus, giving adequate revenue visibility for the medium term. Acuite believes that its reputed clientele along with strong order book position will complement its business risk profile going forward.

- **Moderate Financial risk profile**

SSRW has moderate financial risk profile marked by moderate tangible net worth, gearing and debt protection metrics. The tangible net worth of the company stood at Rs. 43.50 Cr. as on March 31, 2021 (Prov) as against Rs. 30.59 Cr. as on March 31, 2020. The Gearing (Debt to Equity) stood at 0.70 times as on March 31, 2021 (Prov) as against 0.90 times as on March 31, 2020. The debt profile of Rs.30.61 Cr as on March 31, 2021 (Prov). majorly comprises of long term and short term debt (fund and Non-fund based working capital facilities). The TOL/TNW (Total Outside Liabilities to Tangible Net Worth) stood moderate at 1.45 times as on March 31, 2021 (Prov) as against 2.06 times as on March 31, 2020. The debt protection metrics have also improved significantly with ICR (Interest Coverage Ratio) at 6.42 times in FY2021 (Prov) as against 4.20 times in FY2020. The DSCR (Debt-Service Coverage Ratio) stood at 4.70 times in FY2021 (Prov) as against 3.17 times in FY2020. The NCA/TD (Net Cash Accrual to Total Debt) remain moderate at 0.43 times as in FY2021 (Prov) as against 0.37 times in FY2020. Acuite believes that SSRW will continue to benefit from the promoter's 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.

- **Moderate Working capital management**

SSRW has moderate working capital requirements marked by high Gross Current Asset (GCA) of 113 days as on March 31, 2021 (Prov) as against 140 days as on March 31, 2020. The improvement in GCA days can be attributed to improvement in the other current assets. The Inventory holding period of SSRW stood at 17 days as on March 31, 2021 (Prov) as against 13 days as on March 31, 2020. While the Debtors collection period stood at 35 days in FY2021 as against 34 days in FY2020. Creditors days stood at 79 days in FY2021 (Prov) as against 89 days in FY2020. Acuite believes that SSRW's operations will continue to be at efficient levels supported by reputed clientele with timely payments, minimal inventory levels and support from creditors.

Weaknesses

- **Highly competitive industry, 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. Further, 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. Acuite expects the operations of the company to remain efficient on account of timely collection of work billed from its respective authorities.

- **Susceptibility to tender-based operations**

Revenue and profitability depend entirely on the ability to win tenders. Entities in this segment face intense competition, thus requiring them to bid aggressively to procure contracts; this restricts the operating margin to a moderate level. Also, given the cyclical nature inherent in the construction industry, the ability to maintain profitability margin through operating efficiency becomes critical. Acuite believes that the company's business profile and financial profile can be adversely impacted on account of presence of stiff competition, and has inherent risk of susceptibility to tender based operations.

Liquidity Position: Adequate

SSRW has adequate liquidity marked by moderate Net Cash Accruals vis-à-vis its maturing debt obligations. SSRW generated NCA of Rs13.27 Cr. During the FY2021 (Prov) while its maturing debt obligation stood Rs.10.00 Cr in FY2021 (Prov). The cash accruals of the company are expected to remain in the range of Rs10.00-Rs.15.00 Cr. In near term. Further, SSRW maintains unencumbered cash and bank balance of Rs.16.90 Cr. as on March 31, 2021. Acuite believes that liquidity of the company will remain adequate supported by improving net cash accruals and declining debt obligations.

Rating Sensitivities

- Significant improvement in scale of operations, while maintaining its profitability margins.
- 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	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	194.20	175.50
PAT	Rs. Cr.	12.91	10.00
PAT Margin	(%)	6.65	5.70
Total Debt/Tangible Net Worth	Times	0.70	0.90
PBDIT/Interest	Times	6.42	4.20

Status of non-cooperation with previous CRA:

Not Applicable

Material Covenants

None

Any other Information

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>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.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
06-Apr-2021	Cash Credit	Long Term	2.00	ACUITE BBB / Stable (upgraded)
	Bank Guarantee	Short Term	25.00 (Revised from 13.00)	ACUITE A3+ (upgraded)
	Proposed Bank Guarantee	Short Term	3.00 (Revised from 15.00)	ACUITE A3+ (upgraded)
31-Dec-2019	Cash Credit	Long Term	2.00	ACUITE BB+ (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)

***Annexure – Details of instruments rated**

Lender name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
IDBI Bank	Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BBB / Stable (Reaffirmed)
ICICI Bank	Cash Credit	Not Applicable	Not Applicable	Not Applicable	7.50	ACUITE BBB / Stable (Assigned)
HDFC Bank	Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB / Stable (Assigned)
IDBI Bank	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE A3+ (Reaffirmed)
ICICI Bank	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	20.50	ACUITE A3+ (Assigned)
HDFC Bank	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A3+ (Assigned)

Contacts

Analytical	Rating Desk
<p>Aditya Gupta Vice President – Corporate Ratings Tel: 022-49294041 aditya.gupta@acuite.in</p> <p>Shivam Mittal Analyst - Rating Operations Tel: 040-4004 2327 shivam.mittal@acuite.in</p>	<p>Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in</p>

About Acuité Ratings & Research:

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