

Press Release

SRI SRINIVASA CONSTRUCTIONS INDIA PRIVATE LIMITED

April 04, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs.120.00 Cr.
Long Term Rating	SMERA A-/ Outlook: Stable
Short Term Rating	SMERA A2+

* Refer Annexure for details

Rating Rationale

SMERA has assigned the long term rating of '**SMERA A-**' (read as **SMERA A minus**) and short term rating of '**SMERA A2+**' (read as **SMERA A two plus**) on the Rs. 120.00 crore bank facilities of SRI SRINIVASA CONSTRUCTIONS INDIA PRIVATE LIMITED. The outlook is '**Stable**'.

The Karnataka based, Sri Srinivasa Constructions (SSC) was established in 1992 as a partnership firm by Mr. Y. Pitcheswara Rao and Mr. Y.V.S. Rama Krishna. In the year 2009, Sri Srinivasa Constructions India Private Limited (SSCIPL) was incorporated to take over the running operations of SSC.

The company promoted by aforementioned promoters is engaged in undertaking civil construction works including water supply projects, buildings, irrigation projects, industrial projects, road projects and power transmission projects in Karnataka, Andhra Pradesh, Tamil Nadu, Meghalaya and Telangana. SSCIPL is a registered Class 1 contractor for various departments including Public Work Departments (PWD), Panchayat Raj Engineering Department (PRED), Public Health Engineering Department (PHED) among others.

Analytical approach:

SMERA has considered consolidated business and financial risk profiles of Sri Srinivasa Constructions India Private Limited (SSCIPL), United Global Corporation Limited (UGCL) and United Infra Minerals Private Limited (UIMPL) hereinafter referred as Srinivasa Group. The consolidation is mainly on account of similarity in the line of business, strong operational & financial synergies and common management.

Key rating drivers

Strengths

Established track record of operations and experienced management

Srinivasa Group is primarily engaged in the field of government infrastructure projects and public civil construction for the past 2 decades and has a long track record of executing projects in a reasonable time frame. The promoters, Mr. Y Pitcheshwar Rao and Mr. Y V S Ramakrishna have an experience of over two decades in aforementioned line of business.

The group has executed projects for National Small Industries Corporation (NSIC), Public Works Department (PWD), Karnataka State Highway Development among others. All these departments, being a government entity, counter-party default risk remains minimal. Although, risk associated with delayed payment exist but due to good liaisons and promoter's extensive experience, the group has managed to collect payments within 45-60 days from work certification. With the promoter's extensive industry experience and timely execution of projects, the group has been able to establish long-standing relationship with its clients.

Healthy order book position

The group registered operating income of Rs. 384.38 crore in FY2017 as against Rs. 378.16 crore in FY2016. Further during the period April 2017 to February 2018, the group has registered gross revenues of ~Rs. 540.00 crore. Moreover, the group has a collective order book position of Rs. 1541.86 crore as on 01 January 2018 which gives the revenue visibility over the medium term.

Above average financial risk profile

The group has above average financial risk profile marked by tangible net worth of Rs. 89.20 crore as on 31 March, 2017 as against Rs. 73.10 crore as on 31 March, 2016. The gearing deteriorated marginally to 1.17 times as on 31 March, 2017 from 0.92 times as on 31 March, 2016 mainly on account of increased working capital requirements. The debt of Rs. 104.20 crore mainly consists of term loans of Rs. 47.72 crore, unsecured loans of Rs. 1.46 crore and working capital borrowings of Rs. 55.02 crore as on 31 March, 2017. Interest Coverage Ratio (ICR) stood at 3.17 times for FY2017 as against 4.87 times in FY2016. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 2.15 times as on 31 March, 2017 as against 2.18 times as on 31 March, 2016. Going forward, SMERA expects the financial risk profile to improve marginally in absence of major debt funded capex plans.

Weaknesses

Working capital intensive operations

The group's operations are working capital intensive marked by high Gross Current Asset (GCA) of 155 days in FY2017 as compared to 151 days in FY2016. The GCA days are mainly dominated by debtor days of 45 in FY2017 compared to 38 in FY2016. The average cash credit utilization for the past six months stood at ~90 percent. SMERA believes that the efficient working capital management will be crucial to the group in order to maintain a stable credit profile.

Competitive industry

The group is engaged as civil contractor. This particular sector is marked by the presence of several mid to big size players. The company faces intense competition from the other players in the sectors. The risk becomes more pronounced as tendering is based on minimum amount of bidding on contracts. However, this risk is mitigated to an extent on account of extensive experience of the management.

Outlook - Stable

SMERA believes Srinivasa Group will maintain a 'Stable' business risk profile over the medium term. The group will continue to benefit from its experienced management. The outlook may be revised to 'Positive' in case the group registers healthy growth in revenues while achieving

sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in the group's revenues or profit margins, or in case of deterioration in financial risk profile and liquidity position.

About the Group

United Global Corporation Limited

United Global Corporation Limited (UGCL) was incorporated in 2012. The company is engaged in undertaking civil construction works.

United Infra Minerals Private Limited

United Infra Minerals Private Limited (UMIPL) incorporated in 2011 is a subsidiary of UGCL. The company is engaged in manufacturing of alternative for sand such as manufactured sand (M-Sand), Plaster Sand (P-Sand), aggregates and fillers which are used in construction.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	384.38	378.16	107.49
EBITDA	Rs. Cr.	42.11	36.67	14.81
PAT	Rs. Cr.	14.23	18.50	4.93
EBITDA Margin	(%)	10.96	9.70	13.78
PAT Margin	(%)	3.70	4.89	4.59
ROCE	(%)	24.82	32.10	31.63
Total Debt/Tangible Net Worth	Times	1.17	0.92	0.83
PBDIT/Interest	Times	3.17	4.87	2.98
Total Debt/PBDIT	Times	2.29	1.75	2.35
Gross Current Assets (Days)	Days	155	151	222

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

CRISIL in its press release dated March 16, 2018 had inter-alia mentioned the following: CRISIL has been consistently following up with Sri Srinivasa Constructions India Private Limited (SSCIP) for obtaining information through letters dated December 20, 2017 and January 8, 2018, apart from telephonic communication. However, the issuer has remained non-cooperative.

'The investors, lenders and all other market participants should exercise due caution while using the rating assigned/reviewed with the suffix 'issuer not cooperating'. These ratings lack a forward looking component as it is arrived at without any management interaction and is based on best available or limited or dated information on the company'.

Any other information:

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Entities in Infrastructure Sector - <https://www.smera.in/criteria-infra.htm>

- Financial Ratios And Adjustments - <https://www.smerra.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument
<https://www.smerra.in/criteria-complexity-levels.htm>
Rating History (Upto last three years)

Not Applicable

***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	Not Applicable	Not Applicable	Not Applicable	20.00	SMERA A- /Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	SMERA A- /Stable
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	40.00	SMERA A2+
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	18.00	SMERA A2+
Bank guarantee (Proposed)	Not Applicable	Not Applicable	Not Applicable	37.00	SMERA A2+

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ABOUT SMERA

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