

Press Release

Sri Srinivasa Constructions India Private Limited

April 15, 2021

Rating Reaffirmed



| | |
|-------------------------------------|---|
| Total Bank Facilities Rated* | Rs. 120.00 Cr. |
| Long Term Rating | ACUITE A- / Outlook: Stable (Reaffirmed) |
| Short Term Rating | ACUITE A2+ (Reaffirmed) |

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long term rating of '**ACUITE A-**' (read as **ACUITE A Minus**) and the short term rating of '**ACUITE A2+**' (read as **ACUITE A Two Plus**) on the Rs. 120.00 Cr bank facilities of Sri Srinivasa Constructions India Private Limited (SSC). The outlook is '**Stable**'.

The reaffirmation of SSC's ratings take into account long track record of the promoters in civil construction, strong order book position and a healthy financial profile. The reported scale of operations, however, has seen a significant decline from the previous years due to de-consolidation of two companies where the promoters of SSC currently don't have any active involvement. The rating is also constrained by the geographical concentration of its projects and the tender based nature of its operations.

About the company

The Karnataka based, Sri Srinivasa Constructions 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 (SSC) was incorporated to take over the running operations of Sri Srinivasa Constructions.

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. SSC 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

Acuite has considered the standalone financials and risk profile of SSC to arrive at the rating. It is to be noted that in previous years, Acuite had considered a consolidated approach together with United Global Corporation Ltd (UGCL) and United Infra Minerals Private Limited (UIMPL). But the promoters of SSC have confirmed that they currently do not have any interests/ investments in UGCL and UIMPL.

Key Rating Drivers

Strengths

• Experienced promoters and Established nature of operations

The company promoted by Mr. Y. Pitcheswara Rao and Mr. Y.V.S. Rama Krishna with an experience close to 3 decades and 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. The promoters started off as a partnership firm 1992. SSC is a registered Class 1 contractor for various departments including Public Work Departments (PWD), Panchayat Raj Engineering Department (PRED), Public Health Engineering Department (PHED) etc. The company is also a Category 1 contractor for various divisions of water authority of the state of Karnataka.

- **Strong Order Book position**

SSC as on 31 Jan 2021 had projects worth Rs 2,311.54 Cr under its stable of which Rs 1,529.59 Cr worth of work remaining and to be completed in 48 months providing stable revenue visibility for medium term. SSC bids for a wide variety of projects and has a bidding success ratio of 36 percent.

- **Strong operating performance**

The company's performance was fairly stable over the past 3 years improving from Rs 277.55 Cr to 330.28 Cr from FY18 to FY20. The company also achieved a revenue of Rs 194.57 Cr in 9M21 despite the disruptions from COVID Pandemic. The company also reported EBITDA margin in the range of 7.70 percent to 8.31 percent over past 3 years ending FY20. PAT margins were in the range of 3.54 percent to 4.47 percent. Acuite expects the company to maintain the operating performance over medium term considering the strong order book position available with the company.

- **Comfortable Financial position**

SSC financial position is comfortable as observed from strong capital structure, comfortable coverage indicators and comfortable net worth. The gearing was 0.34 times (0.33 times in FY19) and EBITDA leverage was 0.87 times as on FYE20 (0.72 times in FY19.) The DSCR was 2.65 times (2.16 times in FY19) and interest coverage was 4.56 times in FY20 (5.69 times). While the net worth improved to Rs 84.89 Cr at 9ME21 (Provisional) improving from Rs 75.91 Cr as at FYE20. The finance cost was high primarily due to finance charges associated with bank guarantee outstanding provided as retention money. SSC follows an asset life model with net block of Rs 15.37 Cr in FY20. Acuite believes that, the asset life model and strong operating performance will help maintain the financial risk profile of the company in medium term.

Weaknesses

- **Volatile raw material prices and Tender based nature of Operations impacting profitability**

Most EPC projects undertaken by the company has a gestation period of 12-36 months, and during this time period, profitability remains susceptible to fluctuations in the input prices. However, majority of orders in hand have a built-in inflation index-linked price escalation clause, depending upon the extent of coverage of the actual increase in input prices, which mitigates the risk to an extent. The company is yet to receive variation to the tune of Rs 10.97 Cr from projects already completed.

SSC operates in infrastructural construction industry which is highly competitive with presence of large number small, regional and large players. EPC projects executed by the company are tender based with wins going to, the lowest bidder qualifying the terms and conditions stipulated by the respective agencies floating the bids. Acuite believes, this puts strain on profitability of the company in cases where the bidding gets aggressive.

- **Geographic concentration of projects**

Majority of the projects executed by the company are based out of Karnataka which is responsible for a large portion of the revenue in FY20 resulting in exposure to significant geographical and political risk. The company also have diversified to some extent picking up projects in Andhra Pradesh, Tamil Nadu, Meghalaya and Telangana.

Liquidity Position: Adequate

SSC's liquidity position is adequate as observed from stable net cash accruals and comfortable Gross Cash Accrual days. NCA was in the range of Rs 13.38 Cr to Rs 17.98 Cr over the past 3 years while the repayments were in the range of Rs 1.56 Cr to Rs 4.90 Cr over the same period. The working capital facilities were fairly utilized with average utilization for past 6 months ending Feb 2021 at 81 per cent. The GCA days were in the range of 97 to 135 days primarily due to deposits for EMD and Retention money. Acuite expects the net cash accruals for FY21-23 to be significantly higher than the term loan repayments considering the healthy order book position due to be completed over next 12-36 months and SSC's stable operating profile.

Rating Sensitivities

- Improvement in financial risk profile
- Elongation in working capital cycle and delays in collecting receivables

Outlook: Stable

Acuite believes that SSC will maintain stable credit profile on account of its stable operating performance. The outlook may be revised to 'Positive' on case of significant improvement in scale of operations while improving the financial profile. Conversely the outlook may be revised to 'Negative' in case of any further elongation of working capital cycle and delay in realization of bills from the government institutions.

About the Rated Entity - Key Financials*

| | Unit | FY20 (Actual) | FY19 (Actual) |
|-------------------------------|------------|---------------|---------------|
| Operating Income | Rs. Cr. | 330.28 | 349.74 |
| PAT | Rs. Cr. | 14.76 | 13.12 |
| PAT Margin | (percent) | 4.47 | 3.75 |
| Total Debt/Tangible Net Worth | Times | 0.34 | 0.33 |
| PBDIT/Interest | Times | 4.56 | 5.69 |

* On a stand-alone basis

Any other information

Not Applicable

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>
- 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 |
|-------------|---------------------------------|-----------|------------------|---------------------------------|
| 19-Dec-2019 | Cash Credit | Long Term | 5 | ACUITE A- / Stable (Reaffirmed) |
| | Cash Credit | Long Term | 5 | ACUITE A- / Stable |

| | | | | |
|-------------|-------------------------|------------|----|---------------------------------|
| | | | | (Reaffirmed) |
| | Cash Credit | Long Term | 20 | ACUITE A- / Stable (Reaffirmed) |
| | Bank Guarantee | Short Term | 35 | ACUITE A2+ (Reaffirmed) |
| | Bank Guarantee | Short Term | 50 | ACUITE A2+ (Reaffirmed) |
| 28-Jun-2019 | Bank Guarantee | Short Term | 5 | ACUITE A2+ (Reaffirmed) |
| | Cash Credit | Long Term | 20 | ACUITE A- (Indicative) |
| | Cash Credit | Long Term | 5 | ACUITE A- (Indicative) |
| | Proposed Bank Guarantee | Short Term | 37 | ACUITE A2+ (Indicative) |
| | Bank Guarantee | Short Term | 18 | ACUITE A2+ (Indicative) |
| 04-Apr-2018 | Bank Guarantee | Short Term | 40 | ACUITE A2+ (Indicative) |
| | Cash Credit | Long Term | 20 | ACUITE A- / Stable (Assigned) |
| | Cash Credit | Long Term | 5 | ACUITE A- / Stable (Assigned) |
| | Bank Guarantee | Short Term | 40 | ACUITE A2+ (Assigned) |
| | Bank Guarantee | Short Term | 18 | ACUITE A2+ (Assigned) |
| | Proposed Bank Guarantee | Short Term | 37 | ACUITE A2+ (Assigned) |

***Annexure – Details of instruments rated**

| Name of the Facilities | Name of the bank | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. Cr.) | Ratings/Outlook |
|------------------------|---------------------|------------------|----------------|----------------|-----------------------------|---------------------------------|
| Cash Credit | State Bank of India | Not Applicable | Not Applicable | Not Applicable | 5.00 | ACUITE A- / Stable (Reaffirmed) |
| Cash Credit | Canara Bank | Not Applicable | Not Applicable | Not Applicable | 20.00 | ACUITE A- / Stable (Reaffirmed) |
| Cash Credit | HDFC bank | Not Applicable | Not Applicable | Not Applicable | 5.00 | ACUITE A- / Stable (Reaffirmed) |
| Bank Guarantee | State Bank of India | Not Applicable | Not Applicable | Not Applicable | 50.00 | ACUITE A2+ (Reaffirmed) |
| Bank Guarantee | Canara Bank | Not Applicable | Not Applicable | Not Applicable | 35.00 | ACUITE A2+ (Reaffirmed) |
| Bank Guarantee | HDFC bank | Not Applicable | Not Applicable | Not Applicable | 5.00 | ACUITE A2+ (Reaffirmed) |

Contacts

| Analytical | Rating Desk |
|--|--|
| <p>Aditya Gupta Vice President Tel: 022-49294041 aditya.gupta@acuite.in</p> <p>Hariprasad J Senior Analyst - Rating Operations Tel: Hariprasad.j@acuite.in</p> | <p>Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in</p> |

About Acuité Ratings & Research:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,666 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité, Acuité 's rating scale and its definitions.