

Press Release

Sri Srinivasa Constructions India Private Limited

August 22, 2022

Rating Reaffirmed



| Product | Quantum (Rs. Cr) | Long Term Rating | Short Term Rating |
|------------------------------------|---------------------|---------------------------------|-------------------------|
| Bank Loan Ratings | 140.00 | - | ACUITE A2+ Reaffirmed |
| Bank Loan Ratings | 30.50 | ACUITE A- Stable Reaffirmed | - |
| Total Outstanding Quantum (Rs. Cr) | 170.50 | - | - |
| Total Withdrawn Quantum (Rs. Cr) | 0.00 | - | - |

Rating Rationale

Acuite has reaffirmed its 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. 170.50 Cr bank facilities of Sri Srinivasa Constructions India Private Limited (SSCIPL). The outlook remains '**Stable**'.

Rationale for Rating

The rating continues to derive comfort from long track record of the promoters with an experience of over 3 decades in civil construction works including water supply projects, buildings, irrigation projects among others in Karnataka, Andhra Pradesh, Tamil Nadu, Meghalaya and Telangana. Further, the rating takes into account the healthy order book position of Rs 1210 Cr as on July 2022. The rating reaffirmation also considers the efficient working capital management of the company along with an above average financial risk profile marked by strong coverage ratios and modest reliance on short term bank borrowings. However, the rating remains constrained by the geographical concentration of its projects, volatility in raw material prices and the tender based nature of operations.

About the Company

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 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. The present directors of the company are Mr. Yarlagadda Pitcheswara Rao and Mr. Yarlagadda Ramakrishna Venkateshiva.

Analytical Approach

Acuité has considered the standalone financials and risk profile of SSC IPL to arrive at the rating.

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 their work experience closer to three decades, are 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. In the year 2009, Sri Srinivasa Constructions India Private Limited (SSCIPL) was incorporated to take over the running operations of SSC. SSC IPL 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. The extensive experience of promoter is also reflected through healthy order book position of Rs 1210 Cr as on July 2022 which provides the revenue visibility over the medium term. Further, the company is L1 for the orders of Rs 1560 cr. The revenue of the company has increased to Rs 391 Cr in FY 2022 (Prov) as against Rs 281 Cr in FY 2021.

Acuité believes that the company will continue to benefit with the promoters experience and its established presence in the industry, improving its business risk profile over the medium term.

>Efficient working capital management

The working capital management of the company is efficient marked by GCA days of 90 days in FY2022 (Prov) as against 118 days in FY2021 and 121 days in FY2020. Also, the debtor days stood at 46 days in FY2022 (Prov) as against 15 days in FY2021 and 13 days in FY2020. The reason for high debtors is that most of the company billings happens in the end of the month of March and the payment period mostly comes in April. The average credit period allowed to customers is around 45-60 days. The creditor days stood at 104 days in FY2022 (Prov) as against 101 days in FY2021 and 432 days in FY2020. The average period allowed by suppliers is around 45-60 days. However, the inventory days remain around 11 days in FY 2022 (Prov) as against 35 days in FY 2021 and 51 days in FY2020.

Acuite expects the working capital management to remain efficient over the medium term on account of better management of receivables and inventory.

>Above average financial risk profile

Higher revenues have led to better accretion to reserves, which has led to improvement in financial risk profile of the company.

The financial risk profile of the company stood above average marked by comfortable net worth, gearing and debt protection metrics. The tangible net worth stood at Rs.106.45 crore as on 31 March 2022 (Prov) as against Rs.88.64 crore as on 31 March 2021 and Rs.75.91 crore as on 31 March 2020. The total debt of the company stood at Rs.10.53 crore includes Rs.9.73 crore of short-term debt, Rs.0.16 crore of unsecured loans and Rs.0.63 crores of CPLTD as on 31 March 2022 (Prov). The gearing (debt-equity) stood at 0.10 times as on 31 March 2022 (Prov) as compared to 0.22 times as on 31 March 2021 and 0.34 times as on 31 March 2020. Interest Coverage Ratio stood at 6.59 times for FY2022 (Prov) as against 4.49 times for FY2021 and 4.56 times for FY2020. Debt Service Coverage Ratio (DSCR) stood at 3.93 times in FY2022 (Prov) as against 2.91 times in FY2021 and 2.65 times in FY2020. Total outside Liabilities/Total Net Worth (TOL/TNW) stood at 0.81 times as on 31 March 2022 as against 1.09 times on 31 March 2021 and 1.62 times on 31 March 2020. Net Cash Accruals to Total Debt (NCA/TD) stood at 1.92 times for FY2022 (Prov) as against 0.79 times for FY2021 and 0.70 times for FY2020.

Acuité believes that, the asset lite 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. SSC IPL 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. Acuité 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 FY22 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.

Rating Sensitivities

- Improvement in financial and business risk profile.
- Improvement in working capital cycle.

Material covenants

None.

Liquidity Position: Adequate

The company's liquidity position is adequate marked by sufficient net cash accruals. The company has sufficient net cash accruals in the range of Rs.15.60 - Rs.20.16 Crore from FY 2020-2022 against its maturing debt obligation of Rs.0.63 – Rs.1.65 crores during the same tenure. However, the company is expected to generate a sufficient cash accrual in the range of Rs.20.16-Rs.51.30 crores against the maturing repayment obligations of around Rs 0.84 crore over the medium term. The working capital management of the company is efficient marked by GCA days of 90 days in FY2022 (Prov) as against 118 days in FY2021 and 121 days in FY2020. The company maintains unencumbered cash and bank balances of Rs.0.28 crore as on March 31, 2022 (Prov). The current ratio stands at 2.54 times as on March 31, 2022 (Prov). The average bank limit utilization for the past 12 months ending June 2022 for fund-based facility is ~ 60 percent and for BG is around ~74% .

Acuité expects the liquidity to remain adequate in the medium term.

Outlook: Stable

Acuité believes that SSC IPL 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.

Key Financials

| Particulars | Unit | FY 22 (Provisional) | FY 21 (Actual) |
|-------------------------------|---------|---------------------|----------------|
| Operating Income | Rs. Cr. | 391.11 | 280.95 |
| PAT | Rs. Cr. | 17.81 | 12.73 |
| PAT Margin | (%) | 4.55 | 4.53 |
| Total Debt/Tangible Net Worth | Times | 0.10 | 0.22 |
| PBDIT/Interest | Times | 6.59 | 4.49 |

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

Not Applicable

Any other information

None.

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Infrastructure Sector: <https://www.acuite.in/view-rating-criteria-51.htm>
- Application Of 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

| Date | Name of Instruments/Facilities | Term | Amount (Rs. Cr) | Rating/Outlook |
|-------------|--------------------------------|------------|-----------------|---------------------------------|
| 27 May 2021 | Bank Guarantee | Short Term | 60.00 | ACUITE A2+ (Reaffirmed) |
| | Bank Guarantee | Short Term | 50.00 | ACUITE A2+ (Reaffirmed) |
| | Bank Guarantee | Short Term | 30.00 | ACUITE A2+ (Reaffirmed) |
| | Cash Credit | Long Term | 5.00 | ACUITE A- Stable (Reaffirmed) |
| | Cash Credit | Long Term | 20.00 | ACUITE A- Stable (Reaffirmed) |
| | Cash Credit | Long Term | 5.50 | ACUITE A- Stable (Reaffirmed) |
| 15 Apr 2021 | Cash Credit | Long Term | 20.00 | ACUITE A- Stable (Reaffirmed) |
| | Cash Credit | Long Term | 5.00 | ACUITE A- Stable (Reaffirmed) |
| | Cash Credit | Long Term | 5.00 | ACUITE A- Stable (Reaffirmed) |
| | Bank Guarantee | Short Term | 35.00 | ACUITE A2+ (Reaffirmed) |
| | Bank Guarantee | Short Term | 5.00 | ACUITE A2+ (Reaffirmed) |
| | Bank Guarantee | Short Term | 50.00 | ACUITE A2+ (Reaffirmed) |
| 19 Dec | Cash Credit | Long Term | 5.00 | ACUITE A- Stable (Reaffirmed) |
| | Cash Credit | Long Term | 5.00 | ACUITE A- Stable (Reaffirmed) |
| | Cash Credit | Long Term | 20.00 | ACUITE A- Stable (Reaffirmed) |

| | | | | |
|-------------|-------------------------|------------|-------|---------------------------------------|
| 2019 | Bank Guarantee | Short Term | 35.00 | ACUITE A2+ (Reaffirmed) |
| | Bank Guarantee | Short Term | 50.00 | ACUITE A2+ (Reaffirmed) |
| | Bank Guarantee | Short Term | 5.00 | ACUITE A2+ (Reaffirmed) |
| 28 Jun 2019 | Cash Credit | Long Term | 20.00 | ACUITE A- (Issuer not co-operating*) |
| | Cash Credit | Long Term | 5.00 | ACUITE A- (Issuer not co-operating*) |
| | Proposed Bank Guarantee | Short Term | 37.00 | ACUITE A2+ (Issuer not co-operating*) |
| | Bank Guarantee | Short Term | 18.00 | ACUITE A2+ (Issuer not co-operating*) |
| | Bank Guarantee | Short Term | 40.00 | ACUITE A2+ (Issuer not co-operating*) |
| 04 Apr 2018 | Cash Credit | Long Term | 20.00 | ACUITE A- Stable (Assigned) |
| | Cash Credit | Long Term | 5.00 | ACUITE A- Stable (Assigned) |
| | Bank Guarantee | Short Term | 40.00 | ACUITE A2+ (Assigned) |
| | | Short | | |
| | Bank Guarantee | Term | 18.00 | ACUITE A2+ (Assigned) |
| | Proposed Bank Guarantee | Short Term | 37.00 | ACUITE A2+ (Assigned) |

Annexure - Details of instruments rated

| Lender's Name | ISIN | Facilities | Date Of Issuance | Coupon Rate | Maturity Date | Quantum (Rs. Cr.) | Rating |
|---------------------|----------------|------------------------------------|------------------|----------------|----------------|-------------------|---------------------------------|
| HDFC Bank Ltd | Not Applicable | Bank Guarantee (BLR) | Not Applicable | Not Applicable | Not Applicable | 30.00 | ACUITE A2+ Reaffirmed |
| Canara Bank | Not Applicable | Bank Guarantee/Letter of Guarantee | Not Applicable | Not Applicable | Not Applicable | 50.00 | ACUITE A2+ Reaffirmed |
| State Bank of India | Not Applicable | Bank Guarantee/Letter of Guarantee | Not Applicable | Not Applicable | Not Applicable | 60.00 | ACUITE A2+ Reaffirmed |
| HDFC Bank Ltd | Not Applicable | Cash Credit | Not Applicable | Not Applicable | Not Applicable | 5.00 | ACUITE A- Stable Reaffirmed |
| State Bank of India | Not Applicable | Cash Credit | Not Applicable | Not Applicable | Not Applicable | 5.50 | ACUITE A- Stable Reaffirmed |
| Canara Bank | Not Applicable | Cash Credit | Not Applicable | Not Applicable | Not Applicable | 20.00 | ACUITE A- Stable Reaffirmed |

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, Mumbai.

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