

## Press Release

### SPML Infra Limited

06 April, 2018

### Rating Assigned



<b>Total Bank Facilities Rated*</b>	Rs. 2200.00 Cr.
<b>Long Term Rating</b>	SMERA BBB- / Outlook: Stable
<b>Short Term Rating</b>	SMERA A3

\* Refer Annexure for details

### Rating Rationale

SMERA has assigned long-term rating of '**SMERA BBB-**' (read as **SMERA triple B minus**) and short term rating of '**SMERA A3**' (read as **SMERA A three**) on the Rs. 2200.00 Cr. bank facilities of SPML Infra Limited (SPMLIL). The outlook is '**Stable**'.

Incorporated in 1981, SPML Infra Limited (SPMIL) is engaged in infrastructure development on engineering, procurement and construction (EPC) basis which include water infrastructure and management, wastewater treatment, rural electrification and distribution, solid waste management and other civil infrastructure. The company undertakes tender based contract from government departments and has a pan-India presence with ongoing projects at Delhi, Uttar Pradesh, Rajasthan, Bihar, Gujarat, Maharashtra and Karnataka. The company was promoted by the Sethi family headed by Mr. Subhas Sethi.

### Implementation of S4A

The company had faced liquidity challenges on account of delayed collection from receivables, cancellation of certain projects by Public Health Engineering Department (PHED), Rajasthan and on account of unbilled revenue of Rs. 643 Cr. which led to implementation of the Scheme for Sustainable Structuring of Stressed Assets (S4A) with effect from 1st November'17. The scheme was approved by majority of the lenders led by their lead banker, Canara Bank. The following are the salient features of the S4A scheme:

- Total debt of Rs 569.91 Cr. has been considered as sustainable debt of the total outstanding amount of Rs.1117.32 Cr.. Of the sustainable portion of debt Rs 495.22 Cr. is fund based working capital facilities and Rs 74.69 Cr. in term loans
- The unsustainable portion of Rs 547.41 Cr. has been restructured by converting the same into Optionally Convertible Debentures (OCD) of Rs 545.83 Cr. and Rs 1.57 Cr. of equity
- The OCD will carry a coupon rate of 0.01 per cent payable quarterly with door to door tenor of 10 years including a moratorium of 5 years with repayment commencing from December'2022.
- Unsecured loan of Rs 75 Cr. is subordinated to bank borrowings
- All the operating cash flows would be routed through escrow account maintained by the lead banker.
- Dilution in the promoters' stake from 59.65 per cent prior to S4A approval to 38.20 per cent post S4A with lenders acquiring the 21.53 per cent stake

The performance and debt servicing of SPMLIL have been adequate since the implementation of S4A.

### Rating approach

SMERA has considered only the sustainable portion of debt while assessing the credit risk profile of SPML Infra Limited. The rating assigned is not a comment on the serviceability of the OCD.

### Key Rating Drivers

## Strengths

### Significant experience and strong presence in water EPC segment

Incorporated in 1981, SPML has a track record of over 3 decades in the EPC contract business. The company has the experience of executing projects pertaining to water supply, pipeline transmission, irrigation, canals and dams, waste water management. The company has specialized teams for engineering, procurement, construction & project management. Additionally, the company has been certified with ISO 9001: 2008, 2015; 14001:2004 and OHSAS 18001:2007 for delivering high Quality and HSE standards. Over the years, SPMLIL has executed projects for Public Health Engineering Department (PHED) Rajasthan, Bangalore Water Supply & Sewerage Project (BWSSP), Kerala Water Authority (KWA), Delhi Jal Board (DJB), Gujarat Water Infrastructure Limited (GWIL).

### Healthy order book position

SPMLIL has a healthy order book position of ~ Rs 4368 Cr. as on December 31, 2017 which is likely to be executed in the next 12-36 months of which Rs 2955 Cr. (68 per cent) are from water projects and Rs 1412 Cr. (32 per cent) from power projects. The healthy order book position provides comfortable revenue visibility over the medium term.

### Reputed clientele

Over the past three decades, the company has successfully established strong customer relationships with leaders across a wide spectrum of industry sectors like water supply and distribution, power generation, infrastructure, environment management, mining etc. The company is currently undertaking government projects for Public Health Engineering Department (PHED, Rajasthan), West Bengal Power Development Corporation Limited (WBPDCL), Power Grid Corporation of India Limited (PGCIL), South Bihar Power Distribution Company Limited (SBPDCL), Pune Municipal Corporation (PMC), Mira Bhayandar Municipal Corporation (MBMC) to name a few.

## Weaknesses

### Stretched debtor position

The company faced liquidity challenges on account of delayed collection from receivables. The debtor days stood at 186 in FY2017 as compared to 208 days in 2016. As on March 31, 2017, around 63 per cent of the debtors of Rs. 508 Cr. were over six months. Further, there is a build-up of unbilled revenue of Rs.643 Cr. as on March 31, 2017 which adversely impacted cash flows of SPMLIL. The unbilled revenue continues to be in the same level as on December 31, 2017. The receivables also include Rs 111.98 Cr. which are under arbitration/ litigation proceedings. SMERA believes that recovery of the arbitration awards will be a key rating sensitivity.

### Significant exposure in group companies

SPMLIL has invested Rs. 251 Cr. in subsidiaries/ joint ventures as on March 31, 2017. The investment in group companies are for development of Bhilwara Jaipur Toll Road, hydro power projects in Himachal Pradesh and for waste management in municipal corporation of Madurai and Allahabad. The investments are yet to deliver any returns and on consolidated basis the subsidiaries/ joint ventures have suffered a loss of Rs 22 Cr. as on 31st March'2017. Under S4A, SMERA understands that SPMLIL will have restrictions in making any additional investment in group companies.

## Analytical Approach

For arriving at the rating, SMERA has considered the standalone business and financial risk profile of SPMLIL.

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### Outlook: Stable

SMERA believes that SPMLIL will continue to benefit over the medium term from the promoters' long

experience in infrastructure business and a healthy order book position. The outlook may be revised to 'Positive' if SPMLIIL achieves more than the envisaged revenues and profitability while improving its stretched receivable position. Conversely, the outlook may be revised to 'Negative' if the company fails to achieve projected revenue and profitability due to delay in project execution and if the debtors' position further deteriorates.

### About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	1612.84	1409.73	1393.69
EBITDA	Rs. Cr.	111.68	166.44	153.12
PAT	Rs. Cr.	14.36	13.06	13.78
EBITDA Margin	(%)	6.92	11.81	10.99
PAT Margin	(%)	0.89	0.93	0.99
ROCE	(%)	17.05	17.93	34.89
Total Debt/Tangible Net Worth	Times	1.93	1.48	1.34
PBDIT/Interest	Times	1.14	1.15	1.18
Total Debt/PBDIT	Times	4.05	3.28	3.07
Gross Current Assets (Days)	Days	391	420	449

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

None

### Any other information

None

### Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Infrastructure Entities - <https://www.smera.in/criteria-infrastructure.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

### Note on complexity levels of the rated instrument

<https://www.smera.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	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	495.23	SMERA BBB-/ Stable

Term Loans	Not Applicable	Not Applicable	Not Applicable	74.69	SMERA BBB-/ Stable
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	102.86	SMERA A3
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	1499.40	SMERA A3
Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	27.82	SMERA A3

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## ABOUT SMERA

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