

Press Release

SMS Limited

04 May, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 1370.00 Cr.
Long Term Rating	SMERA A/ Outlook: Stable
Short Term Rating	SMERA A1

* Refer Annexure for details

Rating Rationale

SMERA has assigned the long term rating of '**SMERA A**' (**read as SMERA A**) and short term rating of '**SMERA A1**' (**read as SMERA A one**) on the Rs. 1370.00 crore bank facilities of SMS Limited. The outlook is '**Stable**'.

SMS Limited (SL) erstwhile known as SMS Infrastructure Limited was established in the year 1963 by Late Mr. Shaktikumar Sancheti as a proprietary concern. In 1997 the constitution was changed to private limited. The company changed its name to SMS Limited in January 2016. SL promoted by Mr. Abhay Sancheti, Mr. Ajay Sancheti and Mr. Anand Sancheti is engaged in undertaking civil construction works via EPC route. The company has diversified its operations into mining, irrigation, road and bridges construction, operating and maintenance of roads, waste management, airports, toll management, electrical works and railways.

Key rating drivers

Strengths

Established presence in the construction sector and experienced management

SL has an established presence in the construction sector of more than five decades. SL has an experience of executing projects in roads and bridges and specialised projects, including mining, environment, railways, pipelines, bridges among others. The Company is into designing, engineering and construction of complex and integrated water transmission and distribution projects, water treatment plants, barrages, dams, embankments, elevated and underground reservoirs, construction and upgradation of roads, bridges, flyovers, highways, tunnels among others.

SL is promoted by Mr. Abhay Sancheti, who has over three decade of experience in the infrastructure industry. Mr. Abhay is well supported by Mr. Anand Sancheti, Managing Director to handle the day-to-day operations of the company. With the promoter's extensive industry experience, timely execution of projects, the company has been able to establish long-standing relationship with its clients.

Reputed clientele and healthy order book position

SL has executed projects for various reputed clientele such as National Highways Authority of India (NHAI), South Eastern Coalfields Limited (SECL), Uranium Corporation of India Limited (UCIL), Maharashtra Krishna valley Development Corporation (MKVDC), Airports Authority of India (AAI), Oil and Natural Gas Corporation (ONGC), among others. Moreover, the company has unexecuted order book position of Rs. 5298.76 crore as on 02 December 2017 which is spread across segments such as mining, railway, defence, O&M, electrical works. The order book is also well diversified with revenue stream across geographies such as Andhra Pradesh, West Bengal, Rajasthan, Maharashtra, Karnataka, Uttar Pradesh, and Chhattisgarh.

Above average financial risk profile

SL has above average financial risk profile marked by tangible net worth of Rs. 532.44 crore as on 31 March, 2017 as against Rs. 491.37 crore as on 31 March, 2016. The gearing stood at 0.93 times as on 31 March, 2017 as against 0.74 times as on 31 March, 2016. The debt of Rs. 494.63 crore mainly consists of term loans of Rs. 149.28 crore and working capital borrowings of Rs. 345.35 crore as on 31 March 2017. Interest Coverage Ratio (ICR) stood at 1.89 times for FY 2017 as against 1.85 times in FY2016. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.65 times as on 31 March, 2017 as against 1.57 times as on 31 March, 2016. Going forward, SMERA expects the company to maintain its financial risk profile in absence of major debt funded capex plans.

Weaknesses

Working capital intensive operations

SL's operations are working capital intensive marked by high Gross Current Asset (GCA) of 254 days in FY2017 compared to 247 days in FY2016. The GCA days are mainly dominated by high inventory days of 70 days in FY2017 compared to 104 days 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 company in order to maintain a stable credit profile.

Competitive industry

The company is engaged as civil contractor. The 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. Risk become more pronounced as tendering is based on minimum amount of bidding of contracts. However, this risk is mitigated to an extent on account of extensive experience of the management.

Analytical approach:

SMERA has considered the standalone business and financial risk profiles of SL to arrive at the rating.

Outlook – Stable

SMERA believes SL will maintain a stable business risk profile over the medium term. The company will continue to benefit from its experienced management. The outlook may be revised to 'Positive' in case the company 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 company's revenues or profit margins, or in case of deterioration in the company's financial risk profile and liquidity position or delay in completion of its projects.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	1,114.27	1,202.19	1,177.79
EBITDA	Rs. Cr.	151.75	151.86	172.09
PAT	Rs. Cr.	43.77	43.50	43.17
EBITDA Margin	(%)	13.62	12.63	14.61
PAT Margin	(%)	3.93	3.62	3.67
ROCE	(%)	16.21	18.46	42.42
Total Debt/Tangible Net Worth	Times	0.93	0.74	0.82
PBDIT/Interest	Times	1.89	1.85	1.70
Total Debt/PBDIT	Times	2.89	2.07	1.88
Gross Current Assets (Days)	Days	254	247	199

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

CARE in its press release dated April 06, 2018 had inter-alia mentioned the following: 'CARE has been seeking information from SMS Limited to monitor the rating(s) vide e-mail communications/letters dated January 16, 2018, February 08, 2018, February 26, 2018, March 13, 2018, March 19, 2018 and numerous phone calls. However, despite our repeated requests, the company has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the publicly available information which however, in CARE's opinion is not sufficient to arrive at a fair rating. The rating on SMS Ltd.'s bank facilities will now be denoted as CARE BBB+; Stable/CARE A3+; ISSUER NOT COOPERATING*. Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating(s).'

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.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 (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	23.00	SMERA A/Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	130.00	SMERA A/Stable
Standby line of credit	Not Applicable	Not Applicable	Not Applicable	20.00	SMERA A1
Cash Credit	Not Applicable	Not Applicable	Not Applicable	105.00	SMERA A/Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	32.00	SMERA A/Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	11.00	SMERA A/Stable
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	164.00	SMERA A1
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	225.00	SMERA A1
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	225.00	SMERA A1
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	230.00	SMERA A1
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	189.00	SMERA A1
Proposed bank facilities	Not Applicable	Not Applicable	Not Applicable	16.00	SMERA A1

Contacts:

Analytical	Rating Desk
Suman Chowdhury President - SMERA Bond Ratings Tel: +91-22-6714 1107 suman.chowdhury@smera.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 varsha.bist@smera.in
Avadhoot Mane, Analyst - Rating Operations Tel: +91-22-6714 1138 avadhoot.mane@smera.in	

ABOUT SMERA

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