

Press Release
SRK CONSTRUCTIONS AND PROJECTS PRIVATE LIMITED

September 05, 2018

Rating Reaffirmed and Assigned



Total Bank Facilities Rated*	Rs.387.00 Cr (Enhanced from Rs. 20.00 Cr.)
Long Term Rating	ACUITE A / Outlook: Stable
Short Term Rating	ACUITE A1

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long-term rating of '**ACUITE A** (**read as ACUITE A**) and the short-term rating of '**ACUITE A1** (**read as ACUITE A one**) to the Rs.367.00 crore bank facilities and reaffirmed the long-term rating of '**ACUITE A** (**read as ACUITE A**) and short-term rating of '**ACUITE A1** (**read as ACUITE A one**) to the Rs.20.00 crore bank facilities of SRK Constructions and Projects Private Limited (SRK). The outlook is '**Stable**'.

Incorporated 2001, SRK is engaged in the business of civil construction and primarily undertakes road construction works in the States of Andhra Pradesh, Telangana, and Maharashtra. The company is promoted by Mr. Settipalli Ravi Kumar, who started the business as a contractor in 1982 as a sole proprietorship concern, and reconstituted as a private limited company in 2001. SCPL undertakes infrastructure projects for National Highways Authority of India (NHAI), State Road Development Corporations (SRDC) like Andhra Pradesh State Road Development Corporation among others. All the projects are funded under 'The Ministry of Road Transport & Highways (MORTH)' and 'Central Road and Infrastructure Fund (CRIF)'.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the SRK to arrive at this rating.

Key Rating Drivers:

Strengths

• Established Track record of operations and experienced management:

SRK has been engaged in infrastructure development for more than three decades with established track record in irrigation and road project works. Having started its operations in irrigation works in 1982, over a period it diversified into road projects across the geographies covering Andhra Pradesh, Telangana, Gujarat, Maharashtra and hilly terrains of Arunachal Pradesh. It has executed several road projects in the State of Arunachal Pradesh and also executed BOT Annuity projects through its associate entity SRK Infracon Pvt Ltd. In 2013, the company completely moved into EPC (engineering-procurement-construction) projects and primarily executed projects funded under MORTH and CRIF. Over the past five years, it has executed national highway projects valued about Rs.1900.00 crore.

Mr. Settipalli Ravi Kumar (Promoter) is supported by well-qualified and experienced team of professionals to execute the projects. The timely execution of the projects has helped the company in improving its market presence, besides continued business from NHAI and SRDC's and other principal contractors over a period. Acuité believes that SRK continues to enjoy the benefit of its geographically diversified revenue profile, and strong counterparties over the medium term.

- **Continued growth in operating income supported by healthy order book position and Technical prowess:**

SRK has its presence in national and state highways funded by NHAI, CRIF and State Road Development Corporations. This helped SRK in reporting a moderate compound annual growth rate (CAGR) of about 12.3 percent over the four years through FY2018 with revenues of Rs.554.43 crore. As of June 30, 2018, SRK has eight projects worth Rs.1646.94 crore and unexecuted portion of Rs.1147.27 crore; includes four Projects in Andhra Pradesh, two in Telangana, one each in Maharashtra and Gujarat spanning across 330 kilometers of road stretch cumulatively. All its projects are on direct tendering basis, except Gujarat and Maharashtra projects which are under joint venture with other players. In addition to this, SRK is in L1 position for a highway project in Maharashtra of Rs.1106.41 crore. In FY2018, it has secured four projects valued Rs.574.32 crore, and four in FY2017 of Rs.1072.62 crore. Unexecuted project and project in pipeline gives a revenue visibility of about 4x of its FY2018 revenues.

Further, over the past three years, SRK equipped itself with strong line of equipment with investment of nearly Rs.200.00 crore on road construction equipment. The equipment setup has capacity to build one kilometer a day and can support revenue generation of about Rs.1500.00 crore per annum. Acuité believes that strong line of order book, technical prowess, MORTH's thrust to implement 27 kilometers per day of road laying in FY2019 and well-funded projects are expected to support SRK in improving its business risk profile further with revenues in the range of Rs.650 – 900 crore over the medium term.

- **Comfortable financial risk profile**

SRK's financial risk profile is marked by healthy net worth, gearing (debt-to-equity), and moderate total outside liabilities to total net worth (TOL/TNW) and debt protection metrics. SRK's net worth is healthy at Rs.173.59 crore as on March 31, 2018 as compared to Rs.132.68 crore as on March 31, 2017. The net worth has improved significantly by Rs.40.90 crore owing to healthy accretion to reserves, and marginal capital infusion of Rs.2.99 crore. Acuité believes that with improving operating margins year-over-year in the range of about 12.0 -15.0 percent, and healthy revenue growth expected of about 20 percent over the medium term are expected to support net worth to improve to about Rs.250 – 300 crore.

However, huge debt-funded capital expenditure (capex) of about Rs.190.00 crore over the past three years ended FY2018 with outstanding term debt of about Rs.95.00 crore; and working capital debt of Rs.60.00 crore aggregating to Rs.155.00 crore as on March 31, 2018 have resulted in gearing of about 0.89 times, though healthy. In FY2017, it was 0.92 times. TOL/TNW is high at 1.86 times in FY2018 vis-à-vis 1.99 times in FY2017; attributed to high mobilisation advances received from the principals. Debt levels coupled with interest bearing mobilisation advances have resulted in moderate interest coverage of 2.99 times vis-à-vis above 3.5 times in the past. Its net cash accruals to total debt are healthy historically at above 0.35 times. With healthy cash accruals expected in the range of Rs.60.00 – 90.00 crore over the medium term, against repayment obligations to reduce from Rs.40 – 20.00 crore and moderation in capex are expected to support in improving its financial risk profile.

Weaknesses

- **Moderate working capital intensive operations**

SRK's operations are moderately working capital intensive with Gross Current Asset (GCA) days of about 150 days historically, and at about 157 days in FY2018. Although, risks associated with delayed payment exists in the industry, however with its strong counterpart principals of NHAI funded by MORTH and CRIF, SRK has managed to realise payments within 30-45 days. The company raises bill on milestone basis, and receives payment within a period of 45 days from the date of approval of the bill. However, its other current assets are high at about Rs.233.69 crore as on 31 March, 2018; due to high unbilled revenue which is prevalent in the road construction projects. Its unbilled revenue is about Rs.137.00 crore as on 31 March, 2018 against Rs.101.00 crore at the beginning of the year. Unbilled revenue is highly attributed to continuous addition of high value projects in FY2017 and FY2018 aggregating to Rs.1646.94 crore.

Further, high amounts locked in margin monies for bank guarantees, retention money, security deposits with various Departments to the tune of about Rs.125.00 crore (outstanding deposits to the year revenues are around 22 percent historically) as on March 31, 2018 led to moderate GCA and squeezing the liquidity. As a result, SRK's working capital limits have been highly utilised at over 90 percent, for past six months through June 30, 2018 besides high repayment obligations of about Rs.40.00 crore per annum. However, SRK's liquidity is expected to ease - as majority of its projects are crossing the first milestone of 10 percent of work execution, thus enabling SRK to raise the bills besides completion of financial closure, and expected closure of untied limits aggregating to Rs.90.00 crore in the near term.

• Competitive and fragmented industry

SRK is into road projects under EPC revenue model, wherein the sector is marked by the presence of several mid to large sized players. The risk becomes more pronounced as tendering is based on minimum amount of bidding on contracts, and susceptibility to inherent cyclical in the road sector. The recent relaxation of qualification norms by the Central Government for undertaking road projects is further expected to intensify the competitive scenario in the industry leading to pressure on the profitability margins. Acuité believes that SRK's revenues and margins are susceptible to the competitive bidding scenario, besides its geographical concentration of its projects to the States of Andhra Pradesh and Telangana, though mitigated partly by its future projects from Maharashtra.

Outlook: Stable

Acuité believes that SRK will maintain a 'Stable' outlook over the medium term backed by its experienced management and healthy revenue visibility. The outlook may be revised to 'Positive' in case of higher-than-expected growth in its revenues while maintaining its profitability margins and improving its working capital management. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital management or larger-than-expected debt-funded capital expenditure resulting in deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	554.43	500.60	446.81
EBITDA	Rs. Cr.	92.76	61.02	52.61
PAT	Rs. Cr.	40.90	32.55	19.31
EBITDA Margin	(%)	16.73	12.19	11.77
PAT Margin	(%)	7.38	6.50	4.32
ROCE	(%)	25.38	24.10	52.62
Total Debt/Tangible Net Worth	Times	0.89	0.92	0.68
PBDIT/Interest	Times	2.99	3.65	3.55
Total Debt/PBDIT	Times	1.65	1.95	1.26
Gross Current Assets (Days)	Days	157	149	171

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

CRISIL in its rating rationale dated 04 April, 2018 has reported that, it has been consistently following up with SRK for obtaining information through letters and emails dated April 16, 2018, May 8, 2018 and June 15, 2018 among others, apart from telephonic communication. However, the issuer has remained non-cooperative.

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-14.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument
<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
7-Aug-2018	Cash Credit	Long Term	10.00	ACUITE A / Stable (Assigned)
	Bank guarantee/Letter of Guarantee	Short Term	10.00	ACUITE A1 (Assigned)

***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	27.00 (Enhanced from Rs.10.00 crore)	ACUITE A / Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE A / Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE A / Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE A / Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE A / Stable (Assigned)
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.50	ACUITE A / Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	190.00* (Enhanced from Rs.10.00 crore)	ACUITE A1 (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	35.00	ACUITE A1 (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE A1 (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	14.00	ACUITE A1 (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	36.00	ACUITE A1 (Assigned)
Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE A1 (Assigned)

*Letter of credit of Rs.10.00 crore sub-limit of Bank Guarantee.

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About Acuité Ratings & Research:

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