

## Press Release

### Swapna Projects Private Limited

August 09, 2018

### Rating Assigned



<b>Total Bank Facilities Rated*</b>	Rs.18.00 Cr.
<b>Long Term Rating</b>	ACUITE BB/Outlook: Stable
<b>Short Term Rating</b>	ACUITE A4+

\* Refer Annexure for details

### Rating Rationale

Acuite has assigned long term rating of '**ACUITE BB**' (read as **ACUITE double B**) and short-term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs.18.00 crore bank facilities of Swapna Projects Private Limited. The outlook is '**Stable**'.

Founded in 1981 as a partnership firm, Swapna Constructions is engaged in irrigation work for the Departments of Govt of Telangana and Andhra Pradesh. The firm was reconstituted as a private limited company in 2008 and renamed as Swapna Projects Private Limited (Swapna). The company is promoted by Mr. Sreepathi Narsimha Reddy, Mrs. Sreepathi Padma Reddy, Mr. Nandyala Ravinder Reddy, Mr. Sripathi Kondal Reddy. The company is registered as a special class contractor with Departments of Andhra Pradesh and Telangana.

### Key Rating Drivers

#### Strengths:

#### Long track record and experienced promoters:

The management has more than two decades of experience in irrigation work and civil construction business. Swapna primarily executes projects like dams and canal works, tunnel drilling or lift irrigation works, particularly in Andhra Pradesh and Telangana. The company, in the past, has also developed prestigious projects like Ponnai Barrage, Janjhavathi Balancing Reservoir, Sangambanda Balancing Reservoir, and High Level Bridge in Kadapa District. Promoters are supported by experienced team of engineers, project managers, and supervisors to handle work orders at various locations. With unexecuted order book of Rs.115.00 crore in hand as on March 31, 2018 and works under bidding / negotiation stage are expected to provide adequate revenue visibility over the medium term.

#### Healthy financial profile:

Swapna's financial profile is marked by healthy capital structure and debt protection metrics. Gearing (debt-to-equity) is strong at below 0.5 times for the last three years ended March 31, 2018 (Provisional); it is owing to moderate accretions to reserves, efficient working capital management and less reliance on debt. No debt-funded capex is envisaged over the medium term and gearing continues to be strong. Further, its total outside liabilities to total net worth (TOL/TNW) is healthy at 1.02 times (Provisional) as on March 31, 2018. Its debt protection metrics of net cash accruals to total debt (NCA/TD) and interest coverage ratio is healthy at 0.34 times and 4.91 times respectively in FY2018 (Provisional) vis-à-vis 4.51 times and 0.60 times respectively in FY2017. Acuite believes that the financial risk profile is expected to be healthy over the medium term in the absence of significant debt-funded capex plans and efficient working capital management.

#### Weaknesses:

#### Above average scale of operations and tender based business:

The company's revenues have grown at 15.26 percent of Compound Annual Growth Rate for FY15-FY18 (Provisional). Despite the long track record, the scale of operations of the company is above average marked by total operating income of Rs.44.99 crore in FY2018 (Provisional) almost stagnant vis-à-vis Rs.44.27 crore in FY2017. Further, civil construction industry remains highly competitive with

numerous contractors, leading to high competition that restricts the firm's pricing flexibility besides tender based system.

**Comfortable working capital cycle:**

Swapna's operations are working capital intensive marked by high Gross Current Assets (GCA) of 160-170 days for the period of FY16-FY18 (Provisional). They are expected to be at similar levels due to the time taken for execution of projects and staggered deliverables to its clientele. Bills are raised by the company on monthly basis, and paid in 90 days. It maintains average inventory of about 30-45 days, and gets credit of about 2-3 months. All the projects are tender based with built-in cost escalation terms. Acuite believes that with the increasing scale of operations, the working capital requirements are expected to increase and reliance on external debt is expected to increase over the medium term.

**High geographical and sectorial concentration:**

The company has high geographic concentration risk with more than 100 percent of FY2018 revenues derived from work execution in Andhra Pradesh and Telangana. Further, the order book is also limited to these two states only. The company, since inception, has been engaged in executing work orders related to irrigation construction and development. Hence, the sectorial concentration risk is also high.

**Analytical Approach**

Acuite has considered the standalone business and financial risk profiles of Swapna Projects Private Limited to arrive at the rating.

**Outlook: Stable**

Acuite believes that Swapna will maintain 'Stable' outlook and continue to benefit from the experience of its promoters in the civil-construction business. The outlook may be revised to 'Positive' in case of significant increase in revenues while maintaining the profitability and capital structure. The outlook may be revised to 'Negative' in case of significant stretch in its working capital management leading to deterioration of its financial risk profile and liquidity.

**About the Rated Entity - Key Financials**

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	44.99	44.27	35.73
EBITDA	Rs. Cr.	3.66	3.55	3.43
PAT	Rs. Cr.	1.82	1.57	1.25
EBITDA Margin	(%)	8.12	8.03	9.59
PAT Margin	(%)	4.04	3.54	3.49
ROCE	(%)	20.75	23.49	22.43
TOL/Tangible Net Worth	Times	1.02	1.23	1.19
PBDIT/Interest	Times	4.91	4.51	3.43
Gross Current Assets (Days)	Days	170	163	167

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

None

**Any other information**

None

**Applicable Criteria**

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Infrastructure Sector - <https://www.acuite.in/view-rating-criteria-14.htm>

**Note on complexity levels of the rated instrument**

<https://www.acuite.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. Cr.)	Ratings/Outlook
Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE BB / Stable (Assigned)
Term Loan	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE BB / Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A4+ (Assigned)

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### About Acuite Ratings & Research:

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