

## Press Release

**Sri Sai Lakshmi Constructions And Co**

January 22, 2019

### Rating Assigned



<b>Total Bank Facilities Rated*</b>	Rs. 90.00 Cr.
<b>Long Term Rating</b>	ACUITE BBB- / Outlook: Stable
<b>Short Term Rating</b>	ACUITE A3

\* Refer Annexure for details

### Rating Rationale

Acuite has assigned long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and short term rating of '**ACUITE A3**' (read as **ACUITE A three**) to the Rs. 90.00 crore bank facilities of Sri Sai Lakshmi Constructions And Co (SSLC). The outlook is '**Stable**'.

Incorporated in 1997, SSLC is engaged in the business of civil construction and primarily undertakes irrigation work in Andhra Pradesh, Telangana, Uttar Pradesh and Odisha. The entity is promoted by Mr. K. Venkateswara Rao and G. Ratna Prakash along with seven other partners. The firm undertakes irrigation projects for The Superintending Engineer, Water Resource Department, Government of Andhra Pradesh, SEW Infrastructure Limited, Megha Engineering & Infrastructures Limited, among others

### Analytical Approach

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

## Key Rating Drivers

### Strengths

#### • Established track record of operations and experienced management

SSLC has been engaged in infrastructure development work for more than two decades with established track record in irrigation projects. It has executed several irrigation projects in the State of Andhra Pradesh, Telangana, Uttar Pradesh and Odisha. Mr. K. Venkateswara Rao and Mr. G. Ratna Prakash, the Founder Promoters, are supported by well-qualified and experienced team of professionals to execute the projects.

The timely execution of the projects has helped the firm in improving its market presence, besides repeat business from the Government Departments as well as large construction companies such as Megha Engineering and Infrastructures Limited, SEW Infrastructure Limited among others of irrigation and other works. As of October 31, 2018, the company has an unexecuted order book position of about Rs.1270.00 crore which gives adequate revenue visibility over the medium term. Further, its healthy relations with sub-contractors across the locations also help in maintaining the revenues; wherein it passes on sub-contracting works to an extent of 40 percent.

Acuite believes that SSLC's longstanding presence, healthy order book, geographically diversified revenue profile is expected to support in improvement of its business risk profile over the medium term.

#### • Stable operating income supported by healthy order book position and Technical prowess:

SSLC has strong presence in irrigation projects over the past two decades in Andhra Pradesh and Telangana region. SSLC's revenues remained stable at around Rs.250.00 crore over the past two years. As on October 31, 2018, SSLC has thirty five projects with unexecuted order book position of Rs.1270.00 crore which is 5x of its FY2018 revenues. SSLC has reported revenues of about Rs.133.30 crore for seven months through October 2018. Going forward, the revenues are expected to be around Rs.270-300 crore supported by moderate revenue visibility.

in reporting moderate growth in the operating revenues over the medium term.

- **Comfortable financial risk profile**

SSLC's financial risk profile is marked by comfortable net worth, healthy gearing (debt-to-equity), and moderate total outside liabilities to total net worth (TOL/TNW) and healthy debt protection metrics. SSLC's net worth is comfortable at Rs.60.94 crore as on March 31, 2018 as compared to Rs.52.90 crore as on March 31, 2017, owing to comfortable accretion to reserves due to moderate profitability. Gearing levels are healthy at 0.63 times in FY2018 as compared to 0.65 times in FY2017. TOL/TNW is moderate at 1.47 times in FY2018 vis-à-vis 1.56 times in FY2017; moderate partly attributed to passing of work on sub-contract basis to an extent of 40 percent.

Low debt levels have resulted in comfortable interest coverage ratio of 5.29 times in FY2018; its net cash accruals to total debt are moderate historically at above 0.40 times. SSLC's cash accruals are historically at about Rs.14.00 crore. The cash accruals are expected in the range of Rs.18.0 - 22.0 crore over the medium term; against which its repayment obligations are about Rs.4.00 crore, and the firm does invest on new equipment of about Rs.4.0 - 5.0 crore annually. Constitution being partnership firm, any significant withdrawal of partner's capital is a key rating sensitivity factor.

With operating margins at about 9-10 percent and moderate cash accruals, Acuité believes that the financial risk profile is expected to improve marginally over the medium term though partly constrained by incremental working capital requirements for the increasing scale of operations.

## **Weaknesses**

- **Moderate working capital operations**

SSLC's working capital operations are moderate with Gross Current Asset (GCA) days of about 158 in FY2018. The company raises bill on milestone basis, and receives payment within a period of 15 to 30 days from the date of approval of the bill. GCA days remained high due to security deposits given to customers and retention money held with them. However, the working capital requirement is partly mitigated by revenues from sub-contracting of around 40 percent, and material suppliers; resulted in moderate utilisation of its working capital limits at about 85 percent for the past six months through October 31, 2018.

Acuité believes that being Government projects wherein execution is more skewed towards last quarter, the operations continue to be working capital intensive.

- **Competitive and fragmented industry**

SSLC is into irrigation projects, 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 cyclicity in the infrastructure segment. Further, it is dependent on State Government's thrust on irrigation and other infrastructure works. This partly led to volatile trend in the profitability in the range of 8.5 - 10.0 percent over the past three years.

Acuité believes that SSLC's revenues and margins are susceptible to the competitive bidding scenario, besides the geographical concentration of its projects to the States of Andhra Pradesh and Telangana.

- **Regional and client concentration risk**

The company, in FY2018, generated around 80 percent of the revenue from Andhra Pradesh and Telangana governments creating high client and regional concentration risk.

## **Outlook: Stable**

Acuité believes that SSLC 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 any significant withdrawal of partner's capital leading to deterioration of its financial risk profile and liquidity.

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	245.03	213.50	250.59
EBITDA	Rs. Cr.	22.48	21.27	21.19
PAT	Rs. Cr.	10.73	9.57	11.19
EBITDA Margin	(%)	9.17	9.96	8.46
PAT Margin	(%)	4.38	4.48	4.47
ROCE	(%)	21.48	25.04	61.35
Total Debt/Tangible Net Worth	Times	0.63	0.65	0.40
PBDIT/Interest	Times	5.29	4.29	5.71
Total Debt/PBDIT	Times	1.55	1.47	0.80
Gross Current Assets (Days)	Days	158	157	107

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

None

**Any other information**

None

**Applicable Criteria**

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Infrastructure Entities - <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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE BBB- / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE BBB- / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE BBB- / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	16.00	ACUITE A3
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	28.00	ACUITE A3
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	27.00	ACUITE A3

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### About Acuité Ratings & Research:

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