

Press Release

Sri Sai Lakshmi Constructions And Co

August 20, 2021

Rating Reaffirmed



Total Bank Facilities Rated*	Rs.90.00 Cr.
Long Term Rating	ACUITE BB/ Stable (Reaffirmed)
Short Term Rating	ACUITE A4+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed its 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.90.00 Cr. bank facilities of Sri Sai Lakshmi Constructions And Co (SSLC). The outlook is '**Stable**'.

About the company

Incorporated in 1997, Sri Sai Lakshmi Constructions & Co (SSLC) is engaged in the business of civil construction and primarily undertakes irrigation works in Andhra Pradesh, Telangana, Uttar Pradesh and Odisha. The entity is promoted by Mr. K. Venkateswara Rao and G. Ratna Prakash along with 7 other partners. The entity undertakes irrigation projects for The Superintending Engineer, Water Resource Department, Government of Andhra Pradesh, SEW Infrastructure Limited, Megha Engineering & Infrastructures Ltd among others.

Rationale for Rating Reaffirmation

The rating reaffirmed on the bank facilities of SSLC factors in its established track record of operations, experienced management, moderate profitability margins and healthy order book position. However, these strengths are offset by its continuous declining revenues, working capital intensive operations, competitive and fragmented industry and susceptibility of revenues and profitability to tender based nature of operations.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced management; established track record of operations and healthy order book position providing medium term revenue visibility**

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 company operates in the states of Andhra Pradesh, Telangana, Uttar Pradesh and Odisha; providing geographic diversification in its work execution. However, 80 percent of the revenues cater to orders from Andhra Pradesh and Telangana states. The company has an unexecuted order book position of Rs.1081.12 Cr as on May 31, 2021 which is 6.15 times of FY20 and 10.15 times of FY21 revenue on provisional basis. This provides strong revenue visibility for the next 2-3 years of time. Out of the aforementioned order book, the company is planning to execute Rs.160-170 Cr in FY2022 and remaining in FY2023 & FY2024. Of this order book, from Andhra Pradesh the orders of Rs.463 Cr which was allocated during 2017-2019; the execution of these orders were not started yet due to operational challenges. These are expected to be initiated in the next 6-12 months. Acuite believes that the promoter's extensive industry experience will aid SSLC's business risk profile over the medium term.

- **Improvement in profitability margins are expected to be remain satisfactory**

The profitability margins of the firm has been improving over the review period FY19-21 on account of increase in proportion of direct works compared to sub contract works. The profitability margins of the firm stood at 9.48 percent in FY19, 8.23 percent in FY20 and 14.57 percent in FY2021 (Provisional). The improvement in EBITDA margin in FY21 (Provisional) is on account of increase in execution of direct works. The ratio of direct works to subcontract works stood at 60:40. Going forward, the profitability margins of the firm is expected to remain satisfactory owing to healthy order book position and around 80-90 percent of the order book is on direct works.

- **Moderate financial risk profile**

The financial risk profile of the company has remained moderate with moderate capital structure and debt protection metrics. The networth of the company stood at Rs.75.05 Cr and Rs.71.53 Cr as on March 31, 2021 (Provisional) and 2020 respectively. The gearing stood at 0.27 times as on March 31, 2021 (Provisional) and 0.35 times as on March 31, 2020. This is on account of decline in debt levels. Debt protection metrics – Interest coverage ratio and debt service coverage ratio stood at 2.88 times and 2.04 times as on March 31, 2021 (Provisional) respectively as against 2.70 times and 1.20 times as on March 31, 2020 respectively. TOL/TNW stood at 1.23 times and 1.35 times as on March 31, 2021 (Provisional) and 2020 respectively. Acuite believes that the financial risk profile of the firm is expected to remain moderate over the medium term on account of moderate cash accruals and no significant debt-funded capex plans.

Weaknesses

- **Decline in revenues over the review period FY19-21; although expected improvement in top line from FY22**

Moderate scale of operations; dip in FY20 revenue a one-off instance impacted due to change in political dispensation. SSLC's scales of operations are moderate with revenue at around Rs.206.40 crores in FY19. The revenue dip in FY20 to Rs.175.65 crores was a one-off instance affected by the political dispensation in Andhra Pradesh. The change in government in April, 2019 led to the cancellation of state-funded orders due to internal policy changes for the majority of the civil contractors in Andhra Pradesh. Due to impact of Covid-19 the funds are diverted to Covid-19 relief and due to expected slow-down in receivables collection, the firm didn't raise the bills and slow down their work execution. This resulted in decline in revenue in FY21 to Rs.106.51 Cr. However, backed by healthy order book position the revenues of the firm are expected to improve from FY22. Moreover, the firm generated turnover of Rs.40 Cr for 4M of FY22 till July 2021. Acuite believes that SSLC's scale of operations is likely improve in FY22 and remain moderate over the medium term given the timely execution and billing of its unexecuted order book in hand.

- **Tender based nature of operations and Competitive & 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. Acuite 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.

- **Working capital intensive operations**

The working capital management of the company remained working capital intensive with high GCA days at 434 days as on March 31, 2021 (Prov.) as against 250 days as on March 31, 2020. The elongated GCA days are on account of stretch in debtor days and inventory days. In FY2020 there was delay in receivables from Government due to Election code. Due to delay in receivables on account of Covid-19 the firm couldn't raise the bills and slowed down their work execution, which led to increase in inventory levels too in FY21. On the other hand in order to meet the working capital requirements the company has taken leverage on creditors. The creditor days stood at 204 days and 159 days as on March 31, 2021 (Prov.) and 2020 respectively. The working capital limits of the company remained utilized at ~96 percent for the last six months ended July 31, 2021. Acuite believes that the operations of the SSLC will remain stretched in the medium term too.

Rating Sensitivity factors

- Any further deterioration in working capital management leading to deterioration in financial risk profile and liquidity
- Lower-than-expected revenue or profitability leading to lower net cash accruals

Material Covenants: None

Liquidity Position: Adequate

SSLC has adequate liquidity marked by adequate net cash accruals as compared to its maturing debt obligations. SSLC generated net cash accruals of Rs.10.75 Cr for FY2021 (Provisional) vis-à-vis maturing debt obligations of Rs.2.37 Cr over the same period. The cash accruals are estimated to be around Rs.15.00-27.00 Cr during FY2022-24 vis-à-vis repayment obligations in the range of Rs.3.50 Cr to Rs.2.40 Cr. SSLC maintained unencumbered cash and bank balances of Rs.0.58 Cr as on March 31, 2021 (Provisional). The current ratio stood modest at 1.71 times as on March 31, 2021 (Provisional). The working capital limits of the company remained ~96 utilized for the last six months ended July, 2021. Acuite believes that the firm's liquidity is expected to remain adequate over the medium term.

Outlook: Stable

Acuite 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.

About the Rated Entity - Key Financials

	Unit	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	106.51	175.65
PAT	Rs. Cr.	6.98	5.94
PAT Margin	(%)	6.56	3.38
Total Debt/Tangible Net Worth	Times	0.27	0.35
PBDIT/Interest	Times	2.88	2.70

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-52.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-51.htm>
- Application of Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
04-Jun-21	Cash Credit	Long Term	4.00	ACUITE BB (Downgraded) Issuer not co-operating*
	Cash Credit	Long Term	7.00	ACUITE BB (Downgraded) Issuer not co-operating*
	Cash Credit	Long Term	8.00	ACUITE BB (Downgraded) Issuer not co-operating*
	Bank Guarantee	Short Term	16.00	ACUITE A4+ Issuer not co-operating*
	Bank Guarantee	Short Term	28.00	ACUITE A4+ Issuer not co-operating*
	Bank Guarantee	Short Term	27.00	ACUITE A4+ Issuer not co-operating*
06-Mar-20	Cash Credit	Long Term	4.00	ACUITE BB+ (Downgraded) Issuer not co-operating*
	Cash Credit	Long Term	7.00	ACUITE BB+ (Downgraded) Issuer not co-operating*
	Cash Credit	Long Term	8.00	ACUITE BB+ (Downgraded) Issuer not co-operating*
	Bank Guarantee	Short Term	16.00	ACUITE A4+ Issuer not co-operating*
	Bank Guarantee	Short Term	28.00	ACUITE A4+ Issuer not co-operating*
	Bank Guarantee	Short Term	27.00	ACUITE A4+ Issuer not co-operating*
22-Jan-19	Cash Credit	Long Term	4.00	ACUITE BBB-/Stable (Assigned)
	Cash Credit	Long Term	7.00	ACUITE BBB-/Stable (Assigned)
	Cash Credit	Long Term	8.00	ACUITE BBB-/Stable (Assigned)
	Bank Guarantee	Short Term	16.00	ACUITE A3 (Assigned)
	Bank Guarantee	Short Term	28.00	ACUITE A3 (Assigned)
	Bank Guarantee	Short Term	27.00	ACUITE A3 (Assigned)

***Annexure – Details of instruments rated**

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Union Bank of India	Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE BB/Stable (Reaffirmed)
Kotak Mahindra Bank	Cash Credit	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE BB/Stable (Reaffirmed)
Axis Bank	Cash Credit	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE BB/Stable (Reaffirmed)
Union Bank of India	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	16.00	ACUITE A4+ (Reaffirmed)
Kotak Mahindra Bank	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	28.00	ACUITE A4+ (Reaffirmed)
Axis Bank	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	27.00	ACUITE A4+ (Reaffirmed)

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President Tel: 022-49294041 aditya.gupta@acuite.in Nagidi Bhavani Analyst - Rating Operations Tel: 040-40042327 nagidi.bhavani@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research:

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