

Press Release

Sri Sai Lakshmi Constructions And Co

November 15, 2022



Rating Reaffirmed and Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	19.00	ACUITE BB+ Stable Upgraded	-
Bank Loan Ratings	71.00	-	ACUITE A4+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	90.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has upgraded its long-term rating from **'ACUITE BB' (read as ACUITE double B)** to **'ACUITE BB+' (read as ACUITE double B 'Plus')** and reaffirmed its 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'**.

Rationale for the rating

The rating is upgraded basis the improvement in the financial risk profile given the infusion of capital of Rs.16.27 Cr in FY2022 (net infusion was Rs.6.27 Cr given the withdrawal of unsecured loans of Rs.10 Cr in FY2022) and lower dependence on the debt vis-à-vis its improvement in the scale. The overall business performance is supported by its healthy yet improving order book providing strong revenue visibility over the next 12-24 months of time. Timely execution of the order book has led to growth of 14.42 percent in total operating income in FY2022 at Rs.122.92 Cr from Rs.107.42 Cr in FY2021. Liquidity continues to remain adequate.

The rating also takes into account its established track record of operations with experienced promoters, moderate financial risk profile and adequate liquidity, thereby providing sufficient cushion against debt repayment. The above ratings are, however underpinned by tender-based nature of operations and working capital intensive nature of operations.

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.

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 adequate 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, 92 percent of the revenues cater to orders from Andhra Pradesh and Telangana states. The company has an unexecuted order book position of Rs.837.63 Cr as on September 30, 2022 which is 6.97 times of FY2022 revenue. 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 FY2023 and remaining in FY2024 & FY2025. Acuité believes that the promoter's extensive industry experience will aid SSLC's business risk profile over the medium term.

- **Moderate Financial risk profile**

The financial risk profile of the firm has remained moderate with moderate capital structure and debt protection metrics. The net worth of the firm stood at Rs.85.29 Cr and Rs.71.18 Cr as on March 31, 2022 and 2021, respectively. The gearing of the firm has been improving over the last 2 years ending March 31, 2022 due to lower dependence on overall debt and increase in net worth levels resulting from capital infusion. It stood at 0.13 times as on March 31, 2022 against 0.27 times as on March 31, 2021. Debt protection metrics – Interest coverage ratio and debt service coverage ratio stood at 2.91 times and 1.51 times as on March 31, 2022 respectively as against 2.76 times and 1.81 times as on March 31, 2021, respectively. TOL/TNW stood at 0.68 times and 1.30 times as on March 31, 2022 and 2021 respectively. The debt to EBITDA of the company stood at 0.92 times as on March 31, 2022 as against 1.56 times as on March 31, 2021. Acuité believes that the financial risk profile of the company is expected to remain moderate over the medium term on account of moderate cash accruals and no significant debt-funded capex plans.

Weaknesses

- **Working capital intensive operations**

The working capital management of the company remained working capital intensive with high gross current assets (GCA) days at 314 days as on March 31, 2022 as against 410 days as on March 31, 2021. The GCA days are driven by high inventory days. Inventory days stood at 86 days as on March 31, 2022 as against 92 days as on March 31, 2021. Subsequently, the payable period stood at 164 days as on March 31, 2022 as against 165 days as on March 31, 2021 respectively. The debtors day stood at 14 days as on March 31, 2022 as against 36 days as on March 31, 2021. Further, the average bank limit utilization in the last twelve months ended September, 2022 remained at ~74 percent for fund based and 44 percent for non-fund based. Acuité believes that the working capital requirements will continue to remain moderately intensive over the medium term on account of slightly high GCA days.

- **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. 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.

Rating Sensitivities

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

Material covenants

None

Liquidity Position: Adequate

The firm has generated adequate net cash accruals to service its debt obligations. The net cash accruals stood at Rs.8.17 Cr in FY2022 as against the repayment of Rs.2.43 Cr for the same period and expected to generate cash accruals in the range of Rs.10-13 Cr. against CPLTD of Rs.1.56- 1.27 Cr. over the medium term. Unencumbered cash and bank balances stood at Rs. 3.89 Cr as on March 31, 2022. The current ratio of the company stood at 2.12 times as on March 31, 2022. Acuité believes that SSLC's liquidity will remain sufficient over the medium term backed by repayment of its debt obligations and improving accruals.

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.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	122.92	107.42
PAT	Rs. Cr.	4.98	4.23
PAT Margin	(%)	4.06	3.94
Total Debt/Tangible Net Worth	Times	0.13	0.27
PBDIT/Interest	Times	2.91	2.76

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 Sector: <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

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general

understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
20 Aug 2021	Cash Credit	Long Term	7.00	ACUITE BB Stable (Reaffirmed)
	Cash Credit	Long Term	4.00	ACUITE BB Stable (Reaffirmed)
	Cash Credit	Long Term	8.00	ACUITE BB Stable (Reaffirmed)
	Bank Guarantee	Short Term	27.00	ACUITE A4+ (Reaffirmed)
	Bank Guarantee	Short Term	16.00	ACUITE A4+ (Reaffirmed)
	Bank Guarantee	Short Term	28.00	ACUITE A4+ (Reaffirmed)
04 Jun 2021	Bank Guarantee	Short Term	16.00	ACUITE A4+ (Issuer not co-operating*)
	Cash Credit	Long Term	8.00	ACUITE BB (Downgraded and Issuer not co-operating*)
	Cash Credit	Long Term	4.00	ACUITE BB (Downgraded and Issuer not co-operating*)
	Cash Credit	Long Term	7.00	ACUITE BB (Downgraded and 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 2020	Bank Guarantee	Short Term	27.00	ACUITE A4+ (Downgraded and Issuer not co-operating*)
	Bank Guarantee	Short Term	28.00	ACUITE A4+ (Downgraded and Issuer not co-operating*)
	Cash Credit	Long Term	8.00	ACUITE BB+ (Downgraded and Issuer not co-operating*)
	Bank Guarantee	Short Term	16.00	ACUITE A4+ (Downgraded and Issuer not co-operating*)
	Cash Credit	Long Term	4.00	ACUITE BB+ (Downgraded and Issuer not co-operating*)
	Cash Credit	Long Term	7.00	ACUITE BB+ (Downgraded and Issuer not co-operating*)
22 Jan 2019	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's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Union Bank of India	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	16.00	ACUITE A4+ Reaffirmed
Kotak Mahindra Bank	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	28.00	ACUITE A4+ Reaffirmed
Axis Bank	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	27.00	ACUITE A4+ Reaffirmed
Kotak Mahindra Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	7.00	ACUITE BB+ Stable Upgraded
Axis Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	8.00	ACUITE BB+ Stable Upgraded
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	4.00	ACUITE BB+ Stable Upgraded

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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