

Press Release

Sushee Hi-Tech Projects Private Limited

August 13, 2019

Rating Assigned



| | |
|-------------------------------------|------------------------------------|
| Total Bank Facilities Rated* | Rs.50.00 Cr. |
| Long Term Rating | ACUITE BBB- / Stable (Assigned) |
| Short Term Rating | ACUITE A3 (Assigned) |

* 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.50.00 crore bank facilities of Sushee Hi-tech Projects Private Limited (SHPL). The outlook is '**Stable**'.

Established as a private limited company in 2007, Sushee Hi-tech Projects Private Limited (SHPL) is primarily engaged in overburden removal for coal mines of Singareni Collieries Company Limited (SCCL). Based in Hyderabad (Telangana), SHPL is promoted and managed by Mr. K. Anil Reddy. SHPL started commercial operations in February 2013. They started mining work under sub-contract from Southern Engineering Works Infra Limited initially, and later joined hands with Prasad & Company and others for high value works under joint venture on back to back execution basis.

Analytical Approach

Acuite has taken a standalone view of the business and financial risk profile of SHPL to arrive at the rating.

Key Rating Drivers:

Strengths

- Experience of the promoters and established track record of operations**

SHPL is promoted by Mr. Anil K Reddy who has an extensive industry experience for about three decades. He is also accompanied by his son, Mr. K. Shiva Reddy and wife, Mrs. K Ramya Reddy and Mr. Manohar Rao who handles the operations. The experience of the promoters has helped SHPL maintain healthy relationship with its reputed customer Singareni Collieries Company Limited, which is GoT (Government of Telangana) and GoI (Government of India) owned entity and gained them order book worth Rs.3026 crore executable over six years. Acuite believes that with experienced management and operational track record, SHPL will continue to enjoy the benefit of its business risk profile over the medium term.

- Healthy order book position**

Over the years, the company has successfully executed mining projects for Singareni Collieries Company Limited (SCCL) (company jointly owned by Government of Telangana and Government of India in the ratio 51:49). Initially, they started taking orders as a JV but later with growth in operations and financial strength, the company started taking orders by itself independently. SHPL, currently, has a healthy order book position of Rs.3026 crore which lends comfortable revenue visibility over the medium to long term. The order book position of Rs.3026 crore is to be executed within a period of six years. Acuite believes that with healthy unexecuted orders in hand, the business risk profile is expected to be comfortable over the medium term.

- Structured cash flow and escrow mechanism**

SHPL raises bill on SCCL on fortnightly basis, and receives payment within a week's time into the escrow account with the bank, and follows waterfall mechanism. The account is jointly operated with NBFC lender, and regular and timely flow of the cash flow lead to regular recovery of debt obligations and, the balance is allowed to be transferred to SHPL's operating account for its regular operations. Further, as July – September is lean period for mining operations and also the cash flows, the repayment obligations are also structured accordingly at 50 per cent of regular obligations which gives a leeway on cash flow management. Acuite believes that escrow account with waterfall mechanism and regular cash flows led to well-planned management of its operations.

- **Healthy profitability metrics**

The profitability metrics of the company are healthy historically at over 45 per cent, though moderating marginally; it stood healthy at 47.21 per cent in FY 2019 (provisional). The net profit margins of the company stood healthy at 6.53 per cent in FY 2019 (provisional). The healthy profit margins have resulted in cash accruals to the tune of ~ Rs.68.00 crore in FY2019 (provisional). Acuite believes that the margins are expected to improve marginally backed by large work order of about Rs.3026 crore to be executed over six years. Moreover, its operating efficiencies are good as reflected in savings in fuel costs by SCCL of about Rs.7.18 crore as of March 31, 2019 which will be passed on completion of the projects.

Weaknesses

- **Improving financial risk profile**

Financial risk profile of the company is below average marked by high gearing, high total outside liabilities to total net worth (TOL/TNW) though partly supported by comfortable debt protection metrics. Gearing and TOL/TNW stood high at 3.57 and 5.84 times as on 31 March, 2019 (provisional) respectively; a significant improvement from 8.37 and 10.83 times as on 31 March, 2018 and 11.48 and 14.91 times as on March 31, 2017. High gearing in the past was owing to huge debt-funded capex of about Rs.180 crore and Rs.60 crore in FY2017 and 2018 respectively, majorly debt-funded for the works it has taken up. However, sharp improvement year-over-year is attributed to moderation in capex to about Rs.24 crore in FY2019, significant growth in its revenues and accruals and paring of major portion of debt gradually. SHPL has good amount of machinery and equipment to handle conventional projects with volumes up to Rs.300 crore. The company is required to make investment on heavy earthmoving equipment (HEM) towards the end of FY2021 and 2022 for execution of the latest work order, which has just commenced in January 2019. The investment is expected in the range of Rs.225-250 crore, which is expected to be majorly funded out of debt.

SHPL's net-worth is moderate at Rs.35.39 crore as on 31 March, 2019 (provisional) as against Rs.22.77 crore as on 31 March, 2018 owing to accretion in reserves. The promoters have infused equity of about Rs.1.16 crore during Q1FY2020 and net worth is expected to improve significantly backed by expected growth in revenues and moderation in capex. Of the total debt of Rs.126.46 crore as on 31 March, 2019 (provisional), short term debt constitutes Rs.6.35 crore, unsecured loans from promoters of Rs.4.18 crore and long term debt of Rs.115.93 crore which were loans availed to purchase commercial vehicles and equipment. The capital structure is expected to improve to comfortable levels of below 2 times by FY2020 and the same is expected to further improve, but for the expected huge debt-funded capex and the improvement is owing to expected growth in revenues and profitability.

SPPL's debt protection metrics of interest coverage ratio and net cash accruals to total debt (NCA/TD) are comfortable at 2.78 times and 0.12 times respectively in FY2019 (provisional). The company reported cash accruals of Rs.68.22 crore for FY2019 (provisional). Further, repayment obligations are expected to be in the range of Rs.35.00-65.00 crore against annual cash accruals of about Rs.80.00-120.00 crore, which gives adequate cushion to its liquidity. Acuite believes that SHPL's financial risk profile is expected to improve to comfortable levels over the medium term supported by growth in revenues and profitability, despite the capex.

- **Revenue concentration, tender based business and competition from other players**

SHPL's revenues are entirely from SCCL from various orders in the past, either under joint venture or on sub-contract basis. However, the current major order of Rs.3026 crore from SCCL is on direct contract basis and it has no other work apart from this, which leads to revenue and principal concentration though it is partly mitigated by the experienced management.

Liquidity Profile:

Liquidity profile of SHPL is stretched marked by high bank line utilisation and tightly matching net cash accruals to repayment obligations in FY2019. SHPL has reported cash accruals of Rs.68.22 crore in FY2019 (provisional) against debt serviced of about Rs.56.8 crore in FY2019. However, its accruals are expected to improve significantly in the range of Rs.80.0-120.0 crore over the medium term, against which its repayment obligations were moderate in the range of Rs.64.0-42.0 crore, which gives comfortable cushion. Further, SHPL's capex is expected to moderate at about Rs.25 crore in FY2020. However, SHPL requires investing about Rs.200-250 crore on HEM equipment towards the end of FY2021 and 2022 for the on-going project. Its working capital limits are highly utilised at about 98 per cent for the last six months through June 2019. The current ratio is poor at 0.22 times in FY2019 (provisional) owing to long-term support from its suppliers and service providers. Acuite believes that SHPL's liquidity is expected to improve significantly to adequate levels over the medium term supported by moderation in capex, repayment obligations and higher revenues and accruals.

Outlook: Stable

Acuite believes that SHPL will continue to maintain a 'Stable' outlook over the medium term owing to the extensive experience of its promoters and established track record of operations. The outlook may be revised to 'Positive' in case of sustainable improvement in revenues and profitability. Conversely, the outlook may be revised to 'Negative' if the cash accruals are less-than-expected or larger than expected debt-funded capex or any unrelated investments leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key financials

| | Unit | FY19 (Prov) | FY18 (Actual) | FY17 (Actual) |
|-------------------------------|---------|-------------|---------------|---------------|
| Operating Income | Rs. Cr. | 193.43 | 178.83 | 110.55 |
| EBITDA | Rs. Cr. | 91.32 | 86.35 | 58.94 |
| PAT | Rs. Cr. | 12.62 | 4.85 | 8.87 |
| EBITDA Margin | (%) | 47.21 | 48.29 | 53.32 |
| PAT Margin | (%) | 6.53 | 2.71 | 8.03 |
| ROCE | (%) | 19.48 | 17.92 | 19.80 |
| Total Debt/Tangible Net Worth | Times | 3.57 | 8.37 | 11.48 |
| PBDIT/Interest | Times | 4.31 | 2.80 | 3.11 |
| Total Debt/PBDIT | Times | 1.38 | 2.20 | 3.48 |
| Gross Current Assets (Days) | Days | 50 | 76 | 204 |

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 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>

*Annexure – Details of instruments rated

| Name of the Facilities | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. Cr.) | Ratings/Outlook |
|------------------------|------------------|----------------|----------------|-----------------------------|-------------------------------|
| Dropline Overdraft | Not Applicable | Not Applicable | Not Applicable | 10.00 | ACUITE BBB-/Stable (Assigned) |
| Bank Guarantee | Not Applicable | Not Applicable | Not Applicable | 40.00 | ACUITE A3 (Assigned) |

Contacts

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|--|---|
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About Acuité Ratings & Research:

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