

## Press Release

### Sushee Hi-Tech Projects Private Limited

November 25, 2022

### Rating Downgraded



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	27.02	-	ACUITE A4+   Downgraded
Bank Loan Ratings	4.98	ACUITE BB+   Stable   Downgraded	-
Total Outstanding Quantum (Rs. Cr)	32.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

### Rating Rationale

Acuite has downgraded its long-term rating to '**ACUITE BB+**' (read as **ACUITE double B 'plus'**) from '**ACUITE BBB-**' (read as ACUITE triple B 'minus') and short term rating to '**ACUITE A4+**' (read as **ACUITE A 'four plus'**) from '**ACUITE A3**' (read as ACUITE A 'three') on the Rs.32.00 Cr bank facilities of Sushee Hi-Tech Projects Private Limited (SHPPL). The outlook is '**Stable**'.

#### Rationale for the downgrading in rating:

The rating downgrade takes into account the deterioration in its financial risk profile resulting from lower-than-expected operating margins and higher-than-expected debt to fund the equipment's. The leverage ratios deteriorated marked by high debt equity ratios; low debt service coverage ratio (DSCR) and current ratio; deteriorating TOL/TNW (Total Outside Liabilities/Total Net Worth) in FY22. The gearing level was positioned at 5.00 times as on March 31, 2022; the DSCR stood at 1.03 times, current ratio below unity and TOL/TNW at 6.30 times as on March 31, 2022. Though, the scale improved by 54 percent; the EBITDA margin declined sharply to 27.89 percent in FY22 from 30.72 percent in FY21 and 37.48 percent in FY20. The rating downgrade factors continuous dependence on high debt to finance its equipment's vis-à-vis lower operating income to gross block and return on capital employed.

The rating on SHPPL continues to factor in the extensive experience of the management in the infra-mining industry, established market position along with association with strong counterparty Singareni Collieries Company Limited (SCCL) and healthy order book providing adequate revenue visibility for the long term. However, these strengths are partially offset by the working capital intensive nature of operation, below-average financial risk profile and customer concentration in the revenue profile of the company.

#### About the Company

Based in Hyderabad (Telangana) and incorporated as a private limited company in 2008, Sushee Hi-tech Projects Private Limited (SHPPL) is engaged in the business of Civil Construction & Project Execution with special emphasis on Mining Projects, infrastructure Projects of Earthwork excavation, Canal Lining amongst others. SHPPL is a family-owned business and promoted by Mr. K. Anil Reddy and his family members. SHPPL is currently engaged in

overburden removal (OBR) for coal mines of Singareni Collieries Company Limited (SCCL).

### **Analytical Approach**

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

### **Key Rating Drivers**

#### **Strengths**

##### **Promoters' extensive experience in infra-mining industry; established track record of operations in Telangana; healthy order book providing long-term revenue visibility**

SHPPL has established presence in business of Civil Constructions & Project Execution with special emphasis on Mining Projects, infrastructure Projects of Earthwork excavation, Canal Lining amongst others. Mr. Anil K Reddy, the managing director of SHPPL, has around 3 decades of experience in the line of Infra-mining projects. Mr. Reddy is accompanied by his son, Mr. K. Shiva Reddy (Executive Director) and wife, Mrs. K Ramya Reddy (Director) and Mr. Manohar Rao

(Whole-time Director), who handles the business operations. Prior to SHPPL, Mr. Reddy was associated as the Chairman and Managing Director (CMD) for about 25 years with other family entity being managed by his brothers 'Sushee Infra & Mining Limited' engaged into irrigation and other works. In 2008, Mr. Reddy incorporated SHPPL and currently has no business operations with 'Sushee Infra & Mining Limited'. The experience of the promoters has helped SHPPL maintain a healthy relationship with its reputed customer Singareni Collieries Company Limited (SCCL), which is GoT (Government of Telangana) and GoI (Government of India) owned entity. SHPPL has healthy unexecuted order book of worth Rs. 3,966 Cr as on March 31, 2022; estimated to be executed over the next 4-5 years providing long-term revenue visibility. The outstanding order book is 13.02x of the FY2022 revenue of Rs.304.42 Cr. Acuité believes that the promoters' extensive industry experience, established relation with its principal contractors and healthy order book will aid SHPPL's business risk profile over the medium term.

#### **Structured cash flow and escrow mechanism**

SHPPL raises bill to Singareni Collieries Company Limited (SCCL) on every fortnight for the work done, and receives payment within a week's time into the escrow account maintained with the bank which has presence of waterfall mechanism. The regular and timely flow of the cash flows from SCCL lead to regular recovery of debt obligations with the balance funds being allowed to be transferred to SHPPL's operating account for its regular operations. Acuité believes that escrow account with waterfall mechanism will ensure timely repayment of debt obligations over the medium to long term.

### **Weaknesses**

#### **Below-average financial Risk Profile.**

SHPPL's financial risk profile is below-average, marked by a moderate net worth, high gearing and moderate debt protection metrics. The EBITDA margins of the company deteriorated to 27.89 per cent in FY2022 against 30.72 percent in FY2021. PAT margin has increased to 1.82 percent in FY 2022 against to 0.94 in FY2021. The net worth of the company stood at Rs.44.89 Cr as on March 31, 2022 as against Rs.39.34 Cr as on March 31, 2021. The improvement is on account of moderate accretion of net profit in the reserves.

#### **Working capital requirement**

SHPPL's working capital cycle is marked by moderate gross current assets (GCA) days in the range of 68-98 days over the last 3 years ending March 31, 2022. The GCA days are majorly marked by moderate inventory. The elevated GCA days due to improvement in inventory days and creditors days. This has ensured the company to have low reliance on the working capital limits from the bank. SHPPL has a working capital term loan of Rs.4.98 Cr and Bank guarantee facility of Rs.27.01 Cr with the bank to manage its requirements.

#### **Below average debt Metrics**

The interest coverage ratio (ICR) and debt service coverage ratio (DSCR) stood at 3.34 times

and 0.80 times respectively in FY2022 as against 3.48 and 0.67 times respectively in the previous year. The gearing level (debt-equity) stands deteriorated at 5.00 times as on 31 March, 2022 as against 4.48 times as on 31 March, 2021, the deterioration is on account of the increase in long term debt due to the company availing commercial vehicle loans for increasing its fleet for scaling up of operations.. TOL/TNW (Total outside liabilities/Total net worth) has marginally deteriorated and stands high at 6.30 times as on March 31, 2022 against 5.98 times in previous year. High TOL/TNW is on account of presence of high long term borrowings and unsecured loans during the period. The total debt of Rs.115.34 Cr as on 31 March, 2022 consist of long-term debt of Rs.115.34 Cr, USL from promoters/relatives/others of Rs.28.01 Cr and maturing portion of long term borrowings of Rs.78.26 Cr. NCA/TD (Net cash accruals to total debt) stands low and stable at 0.25 times in FY2022 as against 0.26 times in FY2021. Debt/EBITDA (Total debt to EBITDA) stands moderate at 2.67 times in FY2022 as against 2.78 times in FY 2021.

## Rating Sensitivities

### Positive

- Timely execution of its order book leading to substantial improvement in scale of operations while maintaining profitability margins over the medium term.
- Sustainable improvement in Profitability, Leverage and Solvency position of the company.

### Negative

- Any deterioration in working capital cycle and liquidity profile of the company.
- Any deterioration in Revenue profile and leverage position of the company.
- Anyweakening of financial risk profile of the company.

## Material covenants

None

## Liquidity: Adequate

SHPPL had sufficient NCA of Rs.56.60 Cr in FY2022 against debt obligation of Rs.54.10 Cr. The company is expected to generate adequate NCAs in the range of Rs.70-115 Cr against maturing obligations in the range of Rs.27-57 Cr. SHPPL had low level of unencumbered cash and bank balance of Rs.0.15 Cr. in its current accounts with the bank and current ratio of 0.52 times as on March 31, 2022. SHPPL's facility were taken over from SBI by the IndusInd Bank and renamed into a WCTL loan. However, as the working capital requirements are currently moderate on account of timely receivables from the SCCL for the work billed every 15 days, the company has not availed any other facility from the current bank.

## Outlook: Stable

Acuité believes that SHPPL will continue to benefit over the medium to long term on account of long track record of operations, experienced management in the industry and healthy unexecuted order book. The outlook may be revised to 'Positive', in case of in case of timely execution of its unexecuted order book leading to higher-than-expected revenues and profitability with improvement in financial risk profile. Conversely, the outlook may be revised to 'Negative' in case SHPPL registers lower-than-expected revenues and profitability or any significant stretch in its working capital management or larger-than-expected debt funded capital expenditure leading to deterioration of its financial risk profile and liquidity.

## Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	304.42	203.84
PAT	Rs. Cr.	5.55	1.91
PAT Margin	(%)	1.82	0.94

Total Debt/Tangible Net Worth	Times	5.00	4.48
PBDIT/Interest	Times	3.34	3.48

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

Crisil vide its press release dated 26.02.2022, reaffirmed SHPPL to Crisil B+/A4; INC.

#### 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, Acuite 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](http://www.acuite.in)

#### Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
27 Aug 2021	Working Capital Term Loan	Long Term	4.98	ACUITE BBB-   Stable (Assigned)
	Proposed Bank Guarantee	Short Term	0.01	ACUITE A3 (Assigned)
	Bank Guarantee	Short Term	27.01	ACUITE A3 (Assigned)
18 Dec 2020	Bank Guarantee	Short Term	40.00	ACUITE A4+ (Withdrawn)
	Dropline Overdraft	Long Term	10.00	ACUITE BB+ (Withdrawn)
31 Oct 2020	Bank Guarantee	Short Term	40.00	ACUITE A4+ (Downgraded and Issuer not co-operating*)
	Dropline Overdraft	Long Term	10.00	ACUITE BB+ (Downgraded and Issuer not co-operating*)
13 Aug 2019	Dropline Overdraft	Long Term	10.00	ACUITE BBB-   Stable (Assigned)
	Bank Guarantee	Short Term	40.00	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
Indusind Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	27.01	ACUITE A4+   Downgraded
Not Applicable	Not Applicable	Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	0.01	ACUITE A4+   Downgraded
Indusind Bank Ltd	Not Applicable	Working Capital Term Loan	Nov 25 2020 12:00AM	9.20	Oct 25 2025 12:00AM	Simple	4.98	ACUITE BB+   Stable   Downgraded

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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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