

## Press Release

### SLC Projects Private Limited

July 23, 2021

#### Rating Upgraded & Assigned



<b>Total Bank Facilities Rated*</b>	Rs.30.00 Cr.
<b>Long Term Rating</b>	ACUITE BB/ Outlook: Stable (Upgraded from ACUITE BB-/ Stable & Assigned)
<b>Short Term Rating</b>	ACUITE A4+ (Upgraded from ACUITE A4)

\* Refer Annexure for details

#### Rating Rationale

Acuite has upgraded the long-term rating to '**ACUITE BB**' (read as **ACUITE double B**) from '**ACUITE BB-**' (read as **ACUITE double B minus**) and the short-term rating to '**ACUITE A4+**' (read as **ACUITE A four plus**) from '**ACUITE A4**' (read as **ACUITE A four**) on the Rs.28.03 Cr bank facilities of SLC Projects Private Limited (SPPL).

Acuite has also assigned the long-term rating of '**ACUITE BB**' (read as **ACUITE double B**) on the Rs.1.97 crore bank facilities of SPPL. The outlook is '**Stable**'.

The upgrade in the rating reflects the improvement in the margins in FY2021 (Provisional), moderate financial risk profile, adequate liquidity position marked by judicious utilization of the working capital limits and healthy order book position which provides adequate revenue visibility. The rating upgrade also factors the expected improvement in the revenues and margins & expected improvement in the financial risk profile going forward and the expected realization of all the pending receivables by the end of July, 2021 which will result in the improvement of liquidity position.

#### About the Company

SLC Projects Private Limited (SPPL) commenced its operations in 1968 and provides infrastructure construction and engineering services. The company is actively involved in construction, electrical, and mechanical works for government defense-related projects in Bangalore, Visakhapatnam, Tamil Nadu, Orissa and other states. The company is set up by Mr. P. Subbaraju and operates from Visakhapatnam, Andhra Pradesh.

#### Analytical Approach

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

#### Key Rating Drivers

##### Strengths

##### • Experienced management

SPPL's business risk profile is supported by director's extensive industry experience. The company is promoted by Mr. P Subba Raju, Mrs. P Yasodha, Mr. P Srinivasa Raju and Mr. P Ramana Kumar Raju. The managing director, Mr. P. Subba Raju has more than three decades of experience in executing civil contract works and defense related projects. His long standing experience has helped the company in establishing comfortable relationships with their key customers and suppliers.

Acuite believes that SPPL will continue to benefit from the promoter's established presence in the industry and its improving business risk profile over the medium term.

##### • Moderate financial risk profile

Financial risk profile of SPPL is moderate marked by improving gearing (debt to equity ratio) & total outside liabilities to total net worth (TOL/TNW), and moderate debt protection metrics. The gearing improved and stood at 1.79 times as on March 31, 2021 (Provisional) against 1.87 times as on March 31, 2020. TOL/TNW improved and stood at 2.93 times as on March 31, 2021 (Provisional) against 3.38 times as on March 31, 2020. Tangible net worth of the company stood modest at Rs.12.63 crore as on March 31, 2021 (Provisional) against Rs.11.66 crore as on March 31, 2020. The total debt of Rs.22.67 crore as on March 31, 2021 (Provisional) mainly consists of, long-term debt of Rs.7.62 crore, short-term debt of Rs.12.86 crore and unsecured loans of Rs.2.19 crore. Debt protection metrics of interest coverage ratio and net cash accruals to total debt stood moderate

at 2.97 times and 0.09 times respectively in FY2021 (Provisional); while DSCR stood at 1.17 times in FY2021 (Provisional).

The company has availed Covid loan (WCTL under GECL) of Rs.1.97 crore in August, 2020. The repayment is expected to be completed by September, 2024.

Acuite believes that the financial risk profile of the company is expected to remain moderate over the medium term.

## Weaknesses

### • Working capital intensive operations

SPPL's working capital operations have been intensive marked by Gross Current Asset days (GCA) of 226 days in FY2021 (Provisional) against 141 days in FY2020. The inventory days stood at 15 days in FY2021 (Provisional) against 1 day in FY2020. The inventory basically includes the unused WIP materials at the site. Due to the current market scenario, huge quantities of steel were procured, but since there was labor problem, the work was not done and bills were not released. This resulted in high inventory in FY2021 (Provisional). The debtors' days stood at 169 days in FY2021 (Provisional) against 105 days in FY2020. The high receivable days is due to 3 months delay in receiving the payment from their customers due to the covid pandemic. So, the company is expecting the recovery of the payment from their customers by the end of July, 2021 which will result in the improvement in the liquidity. However, working capital bank lines remains utilized at ~60-80 percent for last trailing 13 months ended June, 2021.

Acuite believes that the company's ability to maintain its working capital efficiently will remain critical to maintain a stable credit profile.

### • Tender based business

The company deals with government organization that provides orders on tender basis. The company has to bid for tenders. Going forward company's ability to bid for orders and qualifying for the same remains to be seen. However, the promoters experience and relationship partially mitigates this risk.

### • Customer concentration risk

The Company faces high customer concentration risk with ~97-99 percent of the revenues from single customer 'DGNP'.

Acuite believes that the high customer concentration renders the revenue growth and profitability susceptible to the growth plans, procurement and credit policies of its key customers.

## Rating Sensitivities

- Growth in revenue with sustainability of the profitability margins.
- Any deterioration of its financial risk profile and liquidity position.
- Any elongation of the working capital cycle leading to deterioration in debt protection metrics.

## Material Covenants

None

## Liquidity: Adequate

SPPL has an adequate liquidity position as reflected by adequate net cash accruals against moderate repayment obligations. The company generated cash accruals in the range of Rs.1.40 crore – Rs.2.48 crore during the last four years through FY2018-21 against moderate repayment obligations in the range of Rs.1.60 crore – Rs.1.80 crore during the same period. It is expected to generate cash accruals in the range of Rs.5.52 crore – Rs.9.88 crore over the medium term, against moderate repayment obligations in the range of Rs.0.92 crore – Rs.1.22 crore. Unencumbered cash and bank balances stood at Rs.0.09 crore as on March 31, 2021 (Provisional) with a current ratio of 1.22 times in the same period. Liquid investments stood at Rs.0.15 crore as on March 31, 2021 (Provisional). The working capital limits remained utilized at ~60-80 percent for last trailing 13 months ended June, 2021.

Acuite believes that liquidity profile is expected to remain adequate on account of adequate cash accruals against moderate repayment obligations.

## Outlook: Stable

Acuite believes that SPPL will maintain a 'Stable' outlook over the medium term owing to its experienced management and long track record of operations. The outlook may be revised to 'Positive' if the company demonstrates substantial and sustained growth in its revenues from the current levels while maintaining its margins. Conversely, the outlook may be revised to 'Negative' in case the company registers lower than expected growth in revenues and profitability or deterioration in its working capital management or larger-than-expected debt-funded capex leading to deterioration in its financial risk profile and liquidity.

### About the Rated Entity - Key Financials

	Unit	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	56.72	86.39
PAT	Rs. Cr.	0.97	1.58
PAT Margin	(%)	1.71	1.83
Total Debt/Tangible Net Worth	Times	1.79	1.87
PBDIT/Interest	Times	2.97	2.69

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

Not Applicable

### Any other information

Not Applicable

### Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Entities in Infrastructure Sector - <https://www.acuite.in/view-rating-criteria-51.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
21-May-2020	Cash Credit	Long Term	14.00	ACUITE BB-/ Stable (Assigned)
	Proposed Cash Credit	Long Term	4.00	ACUITE BB-/ Stable (Assigned)
	Bank Guarantee	Short Term	2.00	ACUITE A4 (Assigned)

### \*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	14.00	ACUITE BB/ Stable (Upgraded from ACUITE BB-/ Stable)
Working Capital Term Loan (GECL)	August, 2020	7.50%	September, 2024	1.97	ACUITE BB/ Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	2.03	ACUITE BB/ Stable (Upgraded from ACUITE BB-/ Stable)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE A4+ (Upgraded from ACUITE A4)

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### About Acuité Ratings & Research:

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