

Press Release

S.V.C. Projects Private Limited

July 16, 2020



Rating Assigned

Total Bank Facilities Rated*	Rs. 96.00 Cr.
Long Term Rating	ACUITE B / Outlook: Stable
Short Term Rating	ACUITE A4

* Refer Annexure for details

Rating Rationale

Acuite has assigned the long-term rating of '**ACUITE B**' (read as **ACUITE B**) and short term rating of '**ACUITE A4**' (read as **ACUITE A four**) on the Rs. 96.00 crore bank facilities of S.V.C. Projects Private Limited (SVC). The outlook is '**Stable**'.

SVC was established in 1970, promoted by Mr Satyanarayana Raju and based out of Visakhapatnam, Andhra Pradesh. The promoter started the business in 1970 as a partnership firm as Sri Venkateswara Constructions; and reconstituted as a private limited company in 1997 along with his family members as shareholders and directors. The company is engaged into civil construction activities and primarily undertakes construction work of residential/commercial buildings for Public Works Department (PWD) and other departments of state governments of Andhra Pradesh majorly Andhra Pradesh Township and Infrastructure Development Corporation (APTIDCO) and other PWD works of Andhra Pradesh, Karnataka, Assam states as well. The company is registered as a special class contractor with the public works departments of Telangana.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced management and established relationships with Andhra Pradesh Government**

Established in 1970, promoted by Mr. Satyanarayana Raju. The company is currently managed by promoter's sons Mr. Vishnukumar Raju Penmetsa and Mr. Murali Maheswara Raju Penmetsa who have more than two decades of experience in the civil construction industry. The directors are well supported by other professional teams. With the promoter's extensive industry experience and timely execution of projects, the company has been able to establish a long-standing relationship with various government as well as private clients. As of March 31, 2020, SVC has an unexecuted order book position of Rs.378 Cr and the same is estimated to be executed over the next 24-36 months providing adequate revenue visibility over the medium term.

Acuite believes that SVC will continue to benefit from the promoter's established presence in the industry, its improving business risk profile and strong counterparties will sustain and support the company over the medium term.

- **Moderate financial profile**

SVC's financial risk profile is moderate, marked by moderate net worth, gearing (debt-to-equity), and moderate debt protection metrics. SVC's has modest net worth at Rs. 45.64 crore as on March 31, 2020 (provisional) as against Rs.41.66 crore in FY2019 due to accretion of reserves. Moderate net worth and moderate debt resulted in moderate gearing (debt-to-equity) and total outside liabilities to tangible network (TOL/TNW) ratio of 1.09 times and 1.49 times respectively, as on March 31, 2020 (provisional) vis à vis 1.34 times and 1.78 times March 31, 2019. Debt protection metrics were also moderate, reflected in interest coverage (ICR) and net cash accrual to total debt ratio (NCA/TD) of 2.24 times and 0.14 times, respectively, in FY2020 (provisional) vis-à-vis 2.51 times and 0.18 times for FY2019. Its accruals are expected in the range of Rs.4-6 crore over the medium term, against repayment obligations of about Rs.3-5 crore and moderation in capex to about Rs.1-2 crore per annum over the medium term.

Acuite 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 capex plans.

Weaknesses

• Volatility in the scale of operations

Revenues of the company declined from Rs.174.17 crore in FY2018 to Rs.60.99 crore in FY2020 (provisional) on account of slow work progress and delays in receivable from the government of Andhra Pradesh. Though the revenues are declined, company is able to improve and sustain its operating margin within the range of 10-15 percent over the past three years through FY2020 (provisional). Further, civil-construction industry is intensely competitive on account of fragmented nature with presence of a large number of players. Also, the tender nature of business constrains the business risk profile.

Acuite believes that the ability of the company to increase the scale of operations would be the key rating sensitivity factor over the medium term.

• Moderate working capital operations

The company has intensive working capital operations as evident from its Gross Current Assets (GCA) of 296 days as on FY2020 (provisional) as against 118 days as on FY2019. The working capital management on deteriorated due to a high unbilled inventory/work-in-progress at year end; resulted in high inventory levels of 173 days for FY2020 (provisional) (PY: 52 days). Further, as the work is major of Government departments, the receivable days stood at 119 as on FY2020 (provisional) (PY: 52 days). Its working capital limits are utilised at 99 percent over the past 6 months ended March 2020.

Acuite believes that the operations of the SVC to remain moderately working capital intensive being its exposure to government projects wherein execution is more skewed towards the last quarter.

Liquidity Position: Stretched

The company has stretched liquidity marked by delays in payment receipt from government, leading to cash flow mismatch. SVC generated cash accruals of Rs.7.09 crore in FY2020 (provisional) against debt obligations of Rs.8.66 crore for the same period. The cash accruals of the company are estimated to remain in the range of around Rs.3-6 crore during FY2021-23 against repayment obligations in the range of Rs.2-3 crore for the same period. The average fund-based working capital utilization stood at 99 percent for the past 6 months ended March 2020. The company maintained unencumbered cash and bank balances of Rs.1.43 crore as on 31 March 2020 (provisional). The current ratio stands at 1.17 times as on 31 March 2020 (provisional). Acuite believes that the liquidity of the company is likely to remain stretched over the medium term on account of moderate cash accruals against its repayment obligations over the medium term.

Rating Sensitivities

- Timely execution of the orders and improving its order book
- Significant improvement in scale of operations, while maintaining profitability margins
- Improvement in working capital management and liquidity position
- Timely receivables from Govt. of Andhra Pradesh and advances receivables from related parties are key monitorable

Material covenants

None

Outlook: Stable

Acuite believes that SVC will continue to benefit over the medium term due to its experienced management, moderate revenue visibility. The outlook may be revised to 'Positive', if the company demonstrates substantial and sustained growth in its revenues from the current levels while improving its capital structure. Conversely, the outlook may be revised to 'Negative' in case of any sharp decline in its revenues or significant volatility in its profitability or any significant stretch in its working capital management leading to deterioration in the financial risk profile or further stretch in its liquidity position or a substantial increase in receivable collection period or in case of higher-than-expected leverage indicators.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	60.99	174.17
PAT	Rs. Cr.	3.99	5.65
PAT Margin	(%)	6.54	3.24
Total Debt/Tangible Net Worth	Times	1.09	1.34
PBDIT/Interest	Times	2.24	2.51

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 Entities- <https://www.acuite.in/view-rating-criteria-51.htm>
- Entities In Services Sector - <https://www.acuite.in/view-rating-criteria-50.htm>
- 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)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Overdraft	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE B/Stable
Term Loans	20-11-2018	Not Applicable	27-10-2032	9.50	ACUITE B/Stable
Overdraft	Not Applicable	Not Applicable	Not Applicable	9.00	ACUITE B/Stable
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	19.50	ACUITE A4
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	16.00	ACUITE A4
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	21.00	ACUITE B/Stable
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	9.00	ACUITE A4

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About Acuité Ratings & Research:

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