Acuite
RATINGS & RESEARCH

Press Release

S.V.C. Projects Private Limited

April 19, 2021

Rating Upgraded, Assigned & Withdrawn

Total Bank Facilities Rated*	Rs.121.00 Cr. (Enhanced from Rs.96.00 Cr.)
Long Term Rating	ACUITE BB- / Outlook: Stable (Upgraded from ACUITE B/ Stable, Assigned & Withdrawn)
Short Term Rating	ACUITE A4+ (Upgraded from ACUITE A4 & Assigned)

** Refer Annexure for details*

Rating Rationale

Acuité has upgraded the long-term rating to **'ACUITE BB-' (read as ACUITE double B minus)** from **'ACUITE B' (read as ACUITE B)** on the Rs.25.00 Cr bank facilities and assigned the long-term rating of **'ACUITE BB-' (read as ACUITE double B minus)** on the Rs.26.50 crore bank facilities of S.V.C. Projects Private Limited (SVC). The outlook is **'Stable'**.

Acuité has upgraded the short-term rating to **'ACUITE A4+' (read as ACUITE A four plus)** from **'ACUITE A4' (read as ACUITE A four)** on the Rs.44.50 crore bank facilities and assigned the short-term rating of **'ACUITE A4+' (read as ACUITE A four plus)** on the Rs.25.00 crore bank facilities of SVC.

Acuité has also upgraded & withdrawn the long term rating to **'ACUITE BB-' (read as ACUITE double B minus)** from **'ACUITE B' (read as ACUITE B)** on the Rs.9.50 crore bank facilities of SVC based on withdrawal mail and no due certificate received from the bankers.

The upgrade in the ratings reflect the realization of major pending receivables from APTIDCO resulting in improvement in liquidity position in FY2021, improvement in operating and profitability margins in FY2020, improvement in revenues in FY2021 and moderate financial risk profile. The ratings also factor in the healthy order book position which provides adequate revenue visibility over the medium term and adequate asset base to execute the orders resulting in minimal reliance on subcontractors.

About the Company

Visakhapatnam (Andhra Pradesh) – based, SVC was established in 1970 by Mr. Satyanarayana Raju. 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 promoted by Mr. P Vishnu Kumar Raju, Mr. P Murali Maheswara Raju, Mr. V R Aniketh Varma and Mrs. P Shyamala Deepika. The company is engaged into civil construction, electrical & air conditioning works and undertakes residential/commercial buildings for Public Works Department and other departments of state governments of Andhra Pradesh majorly for Andhra Pradesh Township and Infrastructure Development Corporation (APTIDCO) and other PWD works of Andhra Pradesh, Karnataka, Assam states. The company majorly caters to the needs of defense corporations like Military Engineering Services (MES), Director General Naval Projects (DGNP), Defense Research & Development Organizations (DRDO), among others. The company is registered as a special class contractor with the public works departments of Telangana.

Analytical Approach

Acuité has taken a standalone view of the 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**
  The promoters, Mr. Vishnukumar Raju Penmetsa, Mr. Murali Maheswara Raju Penmetsa, V R Aniketh Verma and P Shyamala Deepika, have over 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 its customers and suppliers. SVC has an unexecuted order book position of ~Rs.391.93 crores as of January 31, 2021. The orders are to be executed over 24-27 months which gives adequate revenue visibility over the medium term. Acuité 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 risk profile**
  Financial risk profile of SVC is moderate marked by moderate gearing (debt to equity ratio) & total outside liabilities to total net worth (TOL/TNW), and moderate debt protection metrics. The gearing stood at 0.94 times as on March 31, 2020 against 1.34 times as on March 31, 2019 on account of plough back of profits to reserves. TOL/TNW stood at 1.52 times as on March 31, 2020 against 1.78 times as on March 31, 2019. Tangible net worth of the company stood modest at Rs.45.09 crore as on March 31, 2020 against Rs.41.66 crore as on March 31, 2019. The total debt of Rs.42.32 crore as on March 31, 2020 mainly consists of long-term debt of Rs.17.21 crore, short-term debt of Rs.23.48 crore and unsecured loans of Rs.1.64 crore. Debt protection metrics of interest coverage ratio and net cash accruals to total debt stood low at 2.24 times and 0.18 times respectively in FY2020; while DSCR stood at 0.92 times in FY2020.
  The company has availed Covid loan – Working Capital Term Loan under Union Guarantee Emergency Credit Line (UGECL) of Rs.4.60 crore as on September, 2020. The repayment is expected to be completed by September, 2024. The company has also availed covid loan – Working Capital Term Loan under Emergency Credit Line Guarantee Scheme (ECLGS) of Rs.1.80 crore as on October, 2020. The repayment is expected to be completed by October, 2024.
  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 capex plans.

- **Improvement in liquidity position of the company during FY2021**
  The liquidity position of the company improved during FY2021 with the realization of receivables to the tune of Rs.13.51 crore from APTIDCO. Further, the company has been sanctioned an additional fund based and non-fund based working capital limits/covid loans during the aforementioned period which eased the company's liquidity position.

- **Adequate asset base for executing projects on own**
  The company has an adequate asset base to execute the present order book size. SVC has been executing all its projects on its own with minimal reliance on sub-contractors. It has its own fleet of equipment viz. batching plant, cement storage silos, hydraulic rotary rig, crawler crane, tower crane, hydraulic mobile crane, transit mixers (RMC), hydraulic excavators etc.

Weaknesses

- **Volatility in the scale of operations**
  Revenues of the company declined from Rs.174.17 crore in FY2019 to Rs.62.38 crore in FY2020 majorly due to delay in receipt of long pending receivables from APTIDCO which had resulted in company's ability to execute and bid for other orders. Further, the state government had also cancelled few orders in FY2020. Also, the company had orders worth Rs.220 crore from APTIDCO out of which Rs.30-40 crore orders were on hold. These orders are expected to be completed by July, 2021 which will result in improvement in revenues and recovery of receivables. However, there may be minor cancellation of orders out of the Rs.30-40 crore orders. Though the revenues have declined, the company is able to improve and sustain its operating margin within the range of 10-24 percent over the past three years through FY2018-20. Further, civil-construction industry is intensely competitive on account of fragmented nature with presence of a large number of players. Also, the tender based nature of business constrains the business risk profile.
  Acuité believes that the ability of the company to increase the scale of operations would be the key rating sensitivity factor over the medium term.

- **Concentrated order book**
  Majority of the order book of the company remains concentrated towards work orders from defense sector which exposes the company to sector concentration risk. Further, the company is also exposed to client concentration risk with a single client (Bharat Electronics Ltd, Machilipatnam) comprising around 55% of the outstanding order book of SVC as on January 31, 2021. Although, company's long standing relationship with its customer mitigates the customer concentration risk.

- **Working capital intensive operations**
  SVC's working capital operations are intensive marked by Gross Current Asset days (GCA) of 384 days in FY2020 against 118 days in FY2019 majorly due to high inventory and debtors days. The inventory days stood high at 184 days in FY2020 against 52 days in FY2019. The increase in inventory days is majorly due to long pending receivables from APTIDCO. The bill for the work done for APTIDCO was submitted to the parties but not allowed to raise bill and present the payment to government. The payments were delayed for almost 15-20 months. So, this has resulted in increase in inventory because the company could not categorize this under the receivables. Further, the inventory holding policy followed by the company is generally 15 days to 3 weeks for continuity of work. The debtors' days stood high at 150 days in FY2020 against 52 days in FY2019; majorly due to delay in the payments from the government. However, working capital bank lines remains utilized at ~70-90 percent for last trailing 13 months ended February, 2021.
  Acuité believes that the working capital operations are expected to remain on similar lines with respect to the inventory and receivable cycle; which will remain a key rating sensitivity factor.

- **Tender-based nature of operations in intensely competitive civil construction industry**
  SVC receives all its work orders from government departments constituting 100% of its order book. All these orders are tender-based and revenue is dependent on the company's ability to bid successfully for these tenders. Profitability margins come under pressure because of this competitive nature of the industry. However, the promoters' longstanding industry experience of more than two decades mitigates this risk to some extent. Further, there are numerous fragmented & unorganized players operating in the segment which makes the civil construction space highly competitive.

- **Impact of COVID-19**
  The Government of India had announced nationwide lockdown from March 23, 2020 in the wake of COVID-19 pandemic. The lockdown had impacted production/operations of various business segments. As SVC operates in "Non-Essential Goods/Services" segment, the operations of the company had been halted. The company was operating at 30% capacity. The company is operating at 90% capacity post COVID. SVC resumed operations from the end of May, 2020. However, with announcements from Government of India with respect to extension of timelines for project completion, release of partial bank guarantees proportionate to completion of projects etc. will ease the company's operations going forward.

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

Material Covenants
None

Liquidity: Stretched
SVC has a stretched liquidity position as reflected by moderate net cash accruals and intensive working capital operations. The company generated cash accruals of Rs.7.48 crore in FY2020 against high repayment obligations of Rs.8.94 crore. It is expected to generate cash accruals in the range of Rs.10.65 crore- Rs.21.76 crore over the medium term, against moderate repayment obligations in the range of Rs.2.04 crore- Rs.8.46 crore. Unencumbered cash and bank balances stood at Rs.1.39 crore as on March 31, 2020 with a current ratio of 1.36 times in the same period. The working capital operations are intensive marked by GCA of 384 days for FY2020. The working capital limits remain utilized at ~70-90 percent for the last trailing 13 months ended February, 2021. The liquidity profile remains stretched in FY2020 on account of working capital-intensive operations and modest cash accruals against high repayment obligations.
Acuité believes that liquidity profile is expected to improve going forward on account of improvement in working capital cycle and adequate cash accruals against moderate repayment obligations.

Outlook: Stable
Acuité believes that SVC will maintain a 'Stable' outlook over the medium term owing to its experienced management, long track record of operations and adequate revenue visibility on the back of healthy order book. 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 profitability 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 position.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	62.38	174.17
PAT	Rs. Cr.	3.43	5.65
PAT Margin	(%)	5.50	3.24
Total Debt/Tangible Net Worth	Times	0.94	1.34
PBDIT/Interest	Times	2.24	2.51

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
16-Jul-2020	Secured Overdraft	Long Term	12.00	ACUITE B/ Stable (Assigned)
	Term Loan	Long Term	9.50	ACUITE B/ Stable (Assigned)
	Secured Overdraft	Long Term	9.00	ACUITE B/ Stable (Assigned)
	Bank Guarantee	Short Term	19.50	ACUITE A4 (Assigned)
	Bank Guarantee	Short Term	16.00	ACUITE A4 (Assigned)
	Proposed Bank Facility	Long Term	21.00	ACUITE B/ Stable (Assigned)
	Proposed Bank Facility	Short Term	9.00	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
Overdraft	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE BB-/ Stable (Upgraded from ACUITE B/ Stable)
Term Loan	Jul-2018	10.75%	Mar-2021	9.50^	ACUITE BB- (Upgraded from ACUITE B/ Stable & Withdrawn)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	18.00	ACUITE BB-/ Stable (Assigned)

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Working Capital Term Loan (UGECL)	Sep-20	7.50%	Sep-24	4.60	ACUITE BB-/ Stable (Assigned)
Overdraft	Not Applicable	Not Applicable	Not Applicable	9.00	ACUITE BB-/ Stable (Upgraded from ACUITE B/ Stable)
Working Capital Term Loan (ECLGS)	Oct-20	8.00%	Oct-24	1.80	ACUITE BB-/ Stable (Assigned)
Overdraft	Not Applicable	Not Applicable	Not Applicable	2.10	ACUITE BB-/ Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE BB-/ Stable (Upgraded from ACUITE B/ Stable)
Bank Guarantee#	Not Applicable	Not Applicable	Not Applicable	19.50	ACUITE A4+ (Upgraded from ACUITE A4)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	16.00	ACUITE A4+ (Upgraded from ACUITE A4)
Bank Guarantee*	Not Applicable	Not Applicable	Not Applicable	13.00	ACUITE A4+ (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	9.00	ACUITE A4+ (Upgraded from ACUITE A4)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE A4+ (Assigned)

**Inland LC is sublimit of BG to the extent of Rs.10.00 crore.*
#LC (ILC/FLC) is sublimit of BG to the extent of Rs.15.00 crore.
^ Amount not included in the total facilities rated.

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About Acuité Ratings & Research:
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