

Press Release

S.V.C. Projects Private Limited

March 28, 2022



Rating Reaffirmed & Withdrawn

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	51.50	ACUITE BB- Reaffirmed & Withdrawn	-
Bank Loan Ratings	69.50	-	ACUITE A4+ Reaffirmed & Withdrawn
Total Outstanding Quantum (Rs. Cr)	0.00	-	-
Total Withdrawn Quantum (Rs. Cr)	121.00	-	-

Rating Rationale

Acuite has reaffirmed and withdrawn the long-term rating of '**ACUITE BB-**' (read as **ACUITE Double B minus**) and short-term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs.121.00 crore bank facilities of S.V.C. Projects Private Limited (SVC).

The rating withdrawal is in accordance with Acuite's policy on withdrawal of rating. The rating is being withdrawn on account of request received from the company and NOC received from the banker.

Rationale for rating assigned

The rating reaffirmation is on account of augmentation in the business risk profile of the company reflected by growth of ~25 percent to Rs.77.81 crore in FY21 compared against Rs.62.38 crore in FY20. The rating continues to factor in the experienced management with long track record of operations, moderate financial risk profile and adequate liquidity position of the company. However, the ratings are constrained by the working capital-intensive nature of operations and volatile profit margins.

About the Company

Established in 1970, SVC Projects Private Limited (SVC) is Visakhapatnam (Andhra Pradesh)-based company promoted by Mr. Satyanarayana Raju. The promoter started the business in 1970 as partnership firm concern as Sri Venkateshwara Constructions; and reconstituted as a private limited company in 1997 along with his family members as shareholders and directors. The Company undertakes 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 main focus of the company is towards central government projects. Apart from this, the company has also

done some private works like construction of the international cricket stadium in Visakhapatnam. The company is registered as a special class contractor with the public works departments of Telangana. Bid success ratio is 10-15%

Analytical Approach

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

Key Rating Drivers

Strengths

Established track record of operations with experienced management

SVC is based out of Visakhapatnam, Andhra Pradesh and was incorporated in the year 1970 reflecting an established track record of operations. 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 and are supported by a strong line of managers. 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.152.16 crores as of February, 2022. The orders are to be executed over twelve months which gives revenue visibility.

Acuité believes that the company will sustain its business profile over the medium term on the back of an established track record of operations with an experienced management.

Moderate financial risk profile:

SVC has moderate financial risk profile marked by tangible net worth of Rs.46.31 crore as on 31 March, 2021 as against Rs.45.09 crore as on 31 March, 2020. The gearing level of the company remained moderate at 0.94 times as on 31 March, 2021. The coverage ratios of the company remained moderate with Interest Coverage Ratio (ICR) of 1.85 times for FY21 against 2.24 times for FY20. Also, the Debt Service Coverage Ratio (DSCR) stood at 0.76 times for FY21 against 0.92 times for FY20. The total outside liabilities to tangible net worth (TOL/TNW) of the company stood at 1.68 times as on March 31, 2021 against 1.52 times as on March 31, 2020. Further, Net Cash Accruals to Total Debt (NCA/TD) stood at 0.12 times for FY21 as against 0.18 times for FY20.

Weaknesses

Working Capital Intensive nature of operations:

The operations of the company are working capital intensive marked by high GCA days of 346 days for FY21 and 384 days in FY20. The high GCA days is majorly on account of high inventory days of 164 days for FY21 compared against 184 days for FY20. A slight improvement in GCA days is seen as the debtor days reduced to 84 days in FY21 as against 150 days in FY20. The creditor days of the company stood at 280 days for FY21 as against 400 days for FY20. The average utilization of the working capital limits of the company remained on the higher side of ~75 percent in last twelve months ended Jan' 22.

Volatile Profit Margins:

The revenue of the company stood at Rs.77.81 crore in FY21 registering a growth of ~25 percent YoY compared to revenue of Rs.62.38 crore in FY20. However, despite increase in turnover, the operating profit margin have remained volatile and has declined from 24.22% in FY20 to 15.11% in FY21. The decline is majorly on account of increase in raw material costs. The PAT margin also declined from 5.50 percent in FY20 to 1.57 percent in FY21. Furthermore, the operations of the company continued to remain moderate during FY22 reflected by revenues of Rs.64.48 crore in 11MFY22.

Tender-based nature of operations in intensely competitive civil construction industry

SVC receives most of its work orders from government departments constituting majority part 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.

Rating Sensitivities

- Elongation in the working capital cycle leading to an increase in reliance on working capital borrowings
- Growth in revenue but volatile profit margins.

Material covenants

None

Liquidity Position: Adequate

SVC has adequate liquidity position marked by net cash accruals of Rs.5.28 crore in FY21 compared against maturing debt obligations of Rs.2.28 crore over the same period. The company reliance on working capital borrowings is on higher side marked by average utilization of working capital limits of 75 percent during the last twelve months period ended Jan' 2022 due to capital intensive nature of operations. Furthermore, the company maintains unencumbered cash and bank balances of Rs.5.29 crore as on March 31, 2021 and the current ratio also stood moderate at 1.41 times as on March 31, 2021.

Outlook: Stable

Not Applicable

Other Factors affecting Rating

About the Rated Entity - Key Financials

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	77.81	62.38
PAT	Rs. Cr.	1.22	3.43
PAT Margin	(%)	1.57	5.50
Total Debt/Tangible Net Worth	Times	0.94	0.94
PBDIT/Interest	Times	1.85	2.24

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>
- 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

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
19 Apr 2021	Bank Guarantee	Short Term	13.00	ACUITE A4+ (Assigned)
	Proposed Bank Facility	Short Term	9.00	ACUITE A4+ (Upgraded from ACUITE A4)
	Proposed Bank Facility	Short Term	12.00	ACUITE A4+ (Assigned)
	Working Capital Term Loan	Long Term	1.80	ACUITE BB- Stable (Assigned)
	Bank Guarantee	Short Term	16.00	ACUITE A4+ (Upgraded from ACUITE A4)
	Proposed Bank Facility	Long Term	4.00	ACUITE BB- Stable (Upgraded from ACUITE B Stable)
	Working Capital Term Loan	Long Term	4.60	ACUITE BB- Stable (Assigned)
	Cash Credit	Long Term	18.00	ACUITE BB- Stable (Assigned)
	Secured Overdraft	Long Term	9.00	ACUITE BB- Stable (Upgraded from ACUITE B Stable)
	Term Loan	Long Term	9.50	ACUITE BB- (Withdrawn)
	Secured Overdraft	Long Term	12.00	ACUITE BB- Stable (Upgraded from ACUITE B Stable)
	Bank Guarantee	Short Term	19.50	ACUITE A4+ (Upgraded from ACUITE A4)
	Secured Overdraft	Long Term	2.10	ACUITE BB- Stable (Assigned)
	Proposed Bank Facility	Short Term	9.00	ACUITE A4 (Assigned)
16 Jul 2020	Bank Guarantee	Short Term	16.00	ACUITE A4 (Assigned)
	Proposed Bank Facility	Long Term	21.00	ACUITE B Stable (Assigned)
	Secured Overdraft	Long Term	12.00	ACUITE B Stable (Assigned)
	Bank Guarantee	Short Term	19.50	ACUITE A4 (Assigned)
	Secured Overdraft	Long Term	9.00	ACUITE B Stable (Assigned)
	Term Loan	Long Term	9.50	ACUITE B Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Union Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	13.00	ACUITE A4+ Reaffirmed & Withdrawn
Kotak Mahindra Bank	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	19.50	ACUITE A4+ Reaffirmed & Withdrawn
State Bank of India	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	16.00	ACUITE A4+ Reaffirmed & Withdrawn
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	18.00	ACUITE BB- Reaffirmed & Withdrawn
The Maharaja Co Operative Urban Bank Limited	Not Applicable	Overdraft	Not Applicable	Not Applicable	Not Applicable	2.10	ACUITE BB- Reaffirmed & Withdrawn
Union Bank of India	Not Applicable	Overdraft	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE BB- Reaffirmed & Withdrawn
Kotak Mahindra Bank	Not Applicable	Overdraft	Not Applicable	Not Applicable	Not Applicable	9.00	ACUITE BB- Reaffirmed & Withdrawn
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE BB- Reaffirmed & Withdrawn
Not Applicable	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	9.00	ACUITE A4+ Reaffirmed & Withdrawn
Not Applicable	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE A4+ Reaffirmed & Withdrawn

Union Bank of India	Not Applicable	Working Capital Term Loan	14-09-2020	7.50	14-09-2024	4.60	ACUITE BB- Reaffirmed & Withdrawn
Kotak Mahindra Bank	Not Applicable	Working Capital Term Loan	10-09-2020	8.00	10-09-2024	1.80	ACUITE BB- Reaffirmed & Withdrawn

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuited.in Vaishnavi Deshpande Management Trainee-Rating Operations Tel: 022-49294065 vaishnavi.deshpande@acuited.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuited.in

About Acuité Ratings & Research

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and 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. Since then, it has assigned more than 8,850 credit 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.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuited.in) for the latest information on any instrument rated by Acuité