

Press Release

SPK And Co

August 18, 2020

Rating Assigned



Total Bank Facilities Rated*	Rs. 400.00 Cr.
Long Term Rating	ACUITE BBB+ / Outlook: Stable (Assigned)
Short Term Rating	ACUITE A2 (Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has assigned the long-term rating of '**ACUITE BBB+**' (read as **ACUITE triple B plus**) and the short term rating of '**ACUITE A2**' (read as **ACUITE A two**) on the Rs.400.00 crore bank facilities of SPK and Co (SPK). The outlook is '**Stable**'.

SPK is a Madurai (Tamil Nadu) based partnership firm established in 2010. SPK is promoted by the following partners, namely Mr. S. Nagarajan, Mr. S Balasubramani, Mr. S Pathinettampadi Karuppasamy, Mr. S Eswaran and Mrs. S Nagarathinam. SPK undertakes Infrastructure Works, primarily construction and maintenance of roads in Tamil Nadu. It registered as a Class-1 contractor Tamil Nadu State Government department.

Analytical Approach

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

Key Rating Drivers

Strengths

• Established position in the construction industry

SPK was established in 2010 by the managing partner, Mr.S.Nagarajan, joint managing partner Mr.S.Balasubramani and other partners Mr.S.Pathinettampadi Karuppasamy, Mr.S.Eswaran and Mrs.S.Nagarathinam. All the partners have nearly two decades of experience in the civil construction industry. The Partners are well supported by the other professional team. Longstanding presence of nearly two decades in executing road projects in south India majorly in Tamilnadu and Class-1 contractor status with the state government, timely execution of projects helped SPK establish a strong market position. Over the years, the firm has developed the technical capability to be the sole bidder for large engineering, procurement, and construction (EPC) contracts from National Highways Authority of India and state road development agencies.

SPK has registered growth in operating income of around 5 per cent in FY2020 (provisional) over FY2019. The operating income in FY2020 (provisional) stood at Rs.643.56 crore as against Rs.614.34 crore in the previous year. Further, the firm's margins have slightly improved in FY2020 (provisional) to 13.60 per cent from 12.17 per cent in FY2019. The firm has executable order book position of around Rs.2345 as on 31 March, 2020; it is 4 times of its revenues that give revenue visibility in the near and medium term.

Acuite believes that healthy unexecuted order book, technical prowess and well-funded projects, promoter's established presence in the industry and strong counterparties will sustain and support the firm business profile over the medium term.

• Healthy financial risk profile

SPK's financial risk profile is healthy, is aided by a healthy network, strong capital structure and robust debt protection metrics. SPK has healthy net worth at Rs.382.67 crore as on March 31, 2020 (provisional) as against Rs.172.37 crore in FY2019 due to partners' capital infusion about Rs.210 crore as on March 31, 2020 (provisional) and accretion of reserves during the same period. Healthy net worth coupled with moderate debt levels shows the strong capital structure marked by strong gearing (debt-to-equity) and total outside liabilities to tangible network (TOL/TNW) levels of 0.08 times and 0.23 times respectively, as on March 31 2020 (provisional) vis-à-vis 0.58 and 1.83 times respectively, as on March 31 2019. Debt protection metrics were robust, reflected in interest coverage (ICR) and net cash accrual to total debt ratio (NCA/TD) of 16.45 times and 1.98 times, respectively, in FY2020 (provisional) vis-à-vis 14.77 times and 0.54 times for FY2019. The SPK generated cash accruals of Rs.52 to 63 crore during the last three years through 2019-20 (provisional),

while its maturing debt obligations were in the range of Rs.13-23 crore during the same period. The cash accruals of the firm are estimated to remain around Rs.60-65 crore during FY2021-23 while their repayment obligations are estimated to be around Rs.10-15 crore during the same period.

Acuite believes that the financial risk profile of the firm is expected to remain healthy over the medium term on account of no significant capex plans over the medium term.

- **Efficient working capital management**

SPK's working capital operations are efficiently managed as evident from Gross Current Assets (GCA) of 24 -82 days during last three years historically ended through FY2020 due to prudent inventory management, and efficient collection of trade receivables supported by reputed clientele owing to a healthy realisation cycle. Given that large proportion of orders are either from strong counterparties such as NHAI or ADB/World Bank funded projects, the realisation is timely debtors were 14-41 days during last three years March 31, 2020 (provisional). Working capital management is also supported by efficient utilisation of resources and low inventory around a day consistently during the last three years ending through March 31, 2020 (provisional). The firm focuses on the easy mobilisation of its resources, thereby improving the turnaround time and reducing the idleness of machinery and equipment. Furthermore, the firm benefits from the ability to stretch its payables 28-196 days during the last three years ended through as on March 31, 2020 (provisional). This results in low reliance on bank lines at below 10 percent over six months through June 2020.

Acuite believes that SPK's operation continues to be efficiently managed supported by healthy net worth, efficient collection mechanism and just in time inventory levels.

Weaknesses

- **Exposure to risks related to the tender-driven nature of the business, and customer and geographic concentration in revenue**

Revenue is primarily from orders from government agencies with an increased focus of the central government on the infrastructure sector, especially roads and highways; SPK is expected to reap benefits over the medium term. However, most of its projects are tender-based and face intense competition, thus requiring the firm to bid aggressively to get contracts, which restricts the operating margin to a moderate level. Also, given the cyclicity inherent in the construction industry, the ability to maintain profitability margin through operating efficiency becomes critical. Further, civil construction industry is highly fragmented and intensely competitive, with several players executing small projects. Revenue growth should remain susceptible to the level of investments being made in the civil construction segment in Tamilnadu, and the extent of competition for the tenders. Operations continue to be focused on road projects, which contribute the bulk of the firm's revenue, unlike EPC players with a presence in multiple segments, such as commercial, residential, and industrial construction and infrastructure (irrigation, dams, and power). Acuite believes that the ability of the firm to maintain the scale of operations along with profitability would be the key rating sensitivity factor over the medium term.

- **Risk of capital withdrawal**

SPK's constitution as a partnership firm is exposed to discrete risks, including the possibility of withdrawal of capital by the partners. Moreover, the partnership nature partially limits the flexibility to raise the funds vis-à-vis a limited firm.

Liquidity Position: Strong

The firm has strong liquidity marked by healthy net cash accruals to its maturing debt obligations and efficient working capital management. SPK generated cash accruals of Rs.52 to 63 crore during the last three years through 2019-20 (provisional), while its maturing debt obligations were in the range of Rs.13-23 crore during the same period. The cash accruals of the firm are estimated to remain around Rs.60-65 crore during 2021-23 while their repayment obligations are estimated to be around Rs.10-15 crore during the same period. This will be sufficient to meet the incremental capex and working capital requirements. SPK's working capital operations are efficiently managed as evident from Gross Current Assets (GCA) of 24 -82 days during last three years historically ended through FY2020 (provisional) further backed by timely receipt of revenue from government authorities. This results in low reliance on bank lines at below 10 percent over six months through June 2020. The firm maintained cash and bank balances of Rs13.88 crore and investments and further, unencumbered cash equivalent about Rs.135 crore as on 31 March 2020 (provisional). The current ratio stands comfortable at 3.68 times as on 31 March 2020 (provisional).

Acuite believes that the liquidity of the firm is likely to remain strong over the medium term on account of healthy cash accruals against its repayment obligations and its internal accruals, and liquid surplus to be sufficient to meet its incremental working capital requirements.

Rating Sensitivities

- Sustained increase in order inflow, providing revenue visibility in the medium term
- Significant improvement in scale of operations, while maintaining profitability margins
- Sustenance of prudent working capital cycle
- Any large debt-funded capital expenditure, resulting in deterioration of financial risk profile.

Material covenants

None

Outlook: Stable

Acuite believes that SPK will continue to benefit over the medium term due to extensive experience of its promoters, healthy order book, healthy financial risk profile and efficient working capital management. The outlook may be revised to 'Positive', if the firm demonstrates substantial and sustained growth in its revenues from the current levels while improving its profitability and working capital intensity. 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 any large debt-funded capex or further investments made in its group/associate entities.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	643.56	614.34
PAT	Rs. Cr.	55.50	47.17
PAT Margin	(%)	8.62	7.68
Total Debt/Tangible Net Worth	Times	0.08	0.58
PBDIT/Interest	Times	16.45	14.77

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	80.00	ACUITE BBB+/Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	100.00	ACUITE A2 (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	28.65	ACUITE A2 (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	121.35	ACUITE A2 (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	70.00	ACUITE BBB+/Stable (Assigned)

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About Acuité Ratings & Research:

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