Press Release

SLMI InfraProjects Private Limited

October 28, 2020

Rating Assigned

Total Bank Facilities Rated*	Rs. 92.00 Cr.
Long Term Rating	ACUITE BBB/ Outlook: Stable (Assigned)
Short Term Rating	ACUITE A2 (Assigned)

** Refer Annexure for details*

Rating Rationale

Acuité has assigned the long-term rating of '**ACUITE BBB**' **(read as ACUITE Triple B)** and the short-term rating of **'ACUITE A2' (read as ACUITE A Two)** on the Rs. 92.00 crore bank facilities of SLMI InfraProjects Private Limited (SLMI). The outlook is **'Stable'**.

SLMI InfraProjects Private Limited (SLMI) erstwhile known as Sree Lakshmi Metal Industries and Constructions which was established in 1992 as a partnership concern. It was subsequently converted into a private limited company on May 11, 2011, with a change in name to befit its current cognomen. SLMI is engaged in civil construction activities primarily of buildings, roads and highways. SLMI is a family-owned business managed by Mr. B Venkat Reddy (Managing Director), Mr. B Neelakanta Reddy (Director) and Mr. B Narasimha Reddy (Director). The registered office of SLMI is located in Secunderabad, Telangana.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of SLMI to arrive at the rating.

Key Rating Drivers

Strengths

• **Established track record, experienced management and healthy order book providing adequate revenue visibility over the next 2-3 years**

SLMI and its promoters' long standing presence in the civil construction industry manifest the company's established track record of operations and the extensive experience of its promoters. The promoters have 30 years' individual experience in the infrastructure construction industry. Since its inception, SLMI has been executing projects floated through tenders by government/civic bodies in Telangana. By endeavoring numerous orders for its key principals for more than 2 decades, SLMI is presently registered as a special Class I contractor with Roads and Bridges (R&B) division in Telangana. Promoter's extensive industry experience established track record and timely execution of past projects has enabled SLMI in establishing long-standing relationship with its key suppliers and principals. In to the bargain, is the change in promoters' focus on strategizing key points like bidding solely for projects funded by budgetary supported state/central government projects or consortium of banks; diversification in the order book in terms of geography and clientele and attempt to bid sizeable projects through joint ventures. These factors have led to healthy growth in SLMI's revenue and operating profit.

As of September 30, 2020, SLMI had an unexecuted order book position of Rs.534 Cr; estimated to be executed over the next 24 months, providing healthy revenue visibility. The outstanding order book is 2.3x of the FY2020 revenue. Acuité believes that the promoter's extensive industry experience and established relation with its key principals and suppliers will aid SLMI's business risk profile over the medium term.

- **Access to leased Bitumen (Asphalt) Quarry; established raw material linkages and moderate supplier concentration risk**

SLMI has access to bitumen (asphalt) quarry on a lease basis with Government of Telangana. SLMI expends this by paying lease rental per month along with royalty per tonne to the government. SLMI being involved in construction activity of roads, bridges and highways; Bitumen forms the major part of its raw material requirement. The leased quarry suffices around 60 percent of SLMI's captive bitumen requirement. Having access to leased quarry leads to comparatively lower cost of production (lower procurement costs, logistic costs and lower dependence on external suppliers of Bitumen at higher rates). This helped SLMI in registering superior operating margins in the range of 11-11.6 percent over the last 3 years ending FY2020 in contrast to other R&B civil contractors registering operating margins in the range of 7-10 percent. SLMI plans to bid for 2 more quarries on the tender basis from the government of Telangana. These quarries will be operated on lease basis to suffice 100 percent of its captive requirements in the near term. Besides, SLMI has established raw material linkages for its other products. SLMI purchases 40 percent of Bitumen from Hindustan Petroleum Corporation Ltd (HPCL) against credit period of 0-30 days or against BG of 60-90 days. Other construction materials like steel, RCC hum pipes, diesel, and cement are purchased from its fixed suppliers against 30-90 days of credit or against BG (Only in case of HPCL/IOCL for diesel and Orient cement Ltd for cement). For commoditized products such as steel and cement, the prices of the same remain volatile, which exposes the company to risks associated with volatility in raw material prices. SLMI has price escalation clauses in all the civil construction projects. Moreover, the promoters' long experience in the industry lends comfort with respect to managing the volatility in the raw material prices and the resultant impact on the company's profitability margins. SLMI usually sub-contracts 15-20 percent of its work like electrical fittings, water pipelines, etc. Withal, SLMI has moderate supplier concentration risk, as not a single supplier contributes more than 40-50 percent to the overall raw materials costs. Acuite believes that the aforesaid factors will continue to aid SLMI's business risk profile over the medium term.

- **Improving scale of operations and profitability; no significant impact of Covid-19**
  SLMI's net revenue has almost doubled since FY2018. SLMI registered revenue of Rs.230.08 Cr in FY2020 against Rs.128.14 Cr in FY2018; supported by continuous order inflow and execution of the same. SLMI's operating margin too mirrored the positive traction in revenue; it improved from 11.24 percent in FY2018, 11.35 percent in FY2019 and 11.63 percent in FY2020. Relatively higher and improving margins are a result of lower cost or production as a percentage of revenue along with cost optimization measures. SLMI has recorded year-to-date revenue of Rs.105.34 Cr and operating margin of 13.38 percent on provisional basis until September 30, 2020 of FY2021. This was against revenue of Rs.120.52 Cr and operating margin of 13.29 percent in the same period of last fiscal. The year-to-date revenue as compared to other R&B players was lower by 12.5 percent; outlining lower impact due to outbreak of Covid-19. Despite lower year-to-date revenue, the overall FY2021 revenue is expected to show modest Y-o-Y growth of 3-5 percent backed by the execution of its healthy order book in H2FY2021. Around, 40-45 percent of the outstanding order book is expected to be executed in FY2021, i.e approx. Rs.210-240 Cr. Acuité believes that SLMI's revenue will show modest Y-o-Y growth over the medium term backed by the execution of its unexecuted order book in hand; higher growth is apprehended on successful bidding of the orders in the pipeline.

- **Efficiently-managed working capital operations**
  SLMI's working capital cycle is efficiently managed as reflected by its moderate GCA days in the range of 94-133 days over the last 3 years ending March 31, 2020. The GCA days are marked by low inventory days (mostly work-in–progress) and debtor days. SLMI had inventory and debtor days of 32 days and 40 days as on March 31, 2020. Low WIP of 3 days and high debtor of 91 days as on March 31, 2019 were on account of work done and bill raised; yet not received. These debtors were pertaining to R&B, Telangana. Despite healthy cash conversion cycle in the range of negative 13-124 days over the last 3 years ending March 31, 2020; the GCA days have remained moderate as it includes the other current asset portion in the form of retention money, security deposits and other advances. As the company has a strategic plan to bid only for quality projects from cash flows per se, the receivables collection has been a healthier supporting working capital cycle. SLMI pays the raw material creditors within 0-30 days; certain portion pertains to expenses payable to sub-contractors. The moderate GCA cycle has led to average utilization of bank lines at 89 percent over the past 12 months ending September, 2020. With moderate GCA days, the bank lines of Rs.15.0 Cr remained utilized at an average of 89 percent for the 12 months ending September 30, 2020. Acuité believes that given the company's focus on national highway orders entailing lower receivable days, the working capital cycle is estimated to remain efficiently managed over the medium term.

- **Healthy financial profile**
  SLMI's financial risk profile is healthy, marked by healthy capital structure and above-average debt protection metrics. SLMI has healthy net worth at Rs.70.25 Cr as on March 31, 2020 as against Rs.57.37 Cr as on March 31, 2019 due to improving profitability. Healthy net worth and low fun-based debt

resulted in healthy gearing (debt-to-equity) and total outside liabilities to tangible networth (TOL/TNW) ratio of 0.37 times and 0.89 times respectively, as on March 31, 2020 vis-à-vis 0.47 times and 1.17 times March 31, 2019. Debt protection metrics are healthy, reflected in interest coverage (ICR) and net cash accrual to total debt ratio (NCA/TD) of 5.67 times and 0.71 times, respectively, in FY2020 vis-à-vis 4.26 times and 0.46 times for FY2019. Its accruals are expected in the range of Rs. 17.50-21.00 Cr over the medium term, against negligible repayment obligations. Acuité believes that in the absence of any major debt-funded capital expenditure in the near term; healthy cash accruals supported by low fund-based debt will lead to healthy financial risk profile over the medium term.

Weaknesses

- **Tender based nature of operations**

SLMI executes only tender based projects from government bodies with low reliance on sub-contract work. Once the tender is allotted, earnest money deposits (EMD) in the range of ~2.5-7 per cent is deposited against Bank guarantee. The company raises bills on a monthly basis. The retention money is usually 5-10 per cent of the contract value, which is in few instances released against Bank guarantee. Since the nature of operations is tender based, the business depends on the ability to bid for contracts successfully. SLMI has a success rate of 70 to 80 percent in bidding. Acuité believes that SLMI's revenue and profitability are susceptible to risks inherent in tender based operations which limits pricing flexibility in an intensely competitive industry.

- **Geographical concentration in revenue profile**

SLMI has executed orders across Telangana state and Manipur till date. Out of the total outstanding orders of approx. Rs.534 Cr as on September 30, 2020, 57.8 percent of orders are from Manipur and rest 43.2 percent from Telangana, thereby, leading to significant geographical concentration risk. Considering, SLMI had 100 percent concentration in Telangana until FY2017; SLMI's endeavor to diversify in Manipur in FY2018 and other geographies through its order in pipeline is noteworthy. The geographical concentration is partially mitigated by the fact, it bids only for funded projects (either budgetary support or consortium of banks); ensuring consistency in revenues and receivables along with better operating margins. Acuite believes that SLMI will remain geographically concentrated until successful bidding of order in Maharashtra and other states too.

- **Client diversification FY2018 onwards; still concentration persists**

Until FY2018, SLMI had been executing projects majorly for R&B divisions of various districts of Telangana. In FY2019, SLMI started bidding for National Highway Authority of India (NHAI) and National Highways & Infrastructure Development Corporation Limited (NHIDCL). Around Rs.381.5 Cr of unexecuted order book is from NHAI and NHIDCL; which is 71 percent of total order book. Diversification has assisted SLMI in receiving its payments within a shorter span of time (within 30 days) from the date of bills raised against 60-90 days from R&B divisions. Despite, diversification, SLMI remains exposed to client-concentration risk. SLMI's order book of Rs.534 Cr is majorly from National Highways & Infrastructure Development Corporation Limited, NHIDCL (57.8 percent); 15.2 percent from Superintending Engineer (R&B) Medak Circle, Sanga Reddy and 13 percent from NHAI. Top 3 contracts are contributing 86 percent to the unexecuted order book; thereby depicting client concentration risk in revenue profile.

- **Execution and other industry-related risks**

SLMI, like any other construction company, is exposed to the risks inherent in the construction sector such as time/cost overruns, slowdown in new order inflows, high exposure to non-fund-based limits vis-à-vis its net worth, amongst others. SLMI is also exposed to execution risk and its ability to complete the projects as per the scheduled timelines, which is crucial to meet its contractual obligations and receive repeated orders in future. Acuite believes that SLMI will remain exposed to execution and industry-related risks over the medium term

Liquidity Position: Adequate

SLMI's liquidity is adequate, marked by lower exposure to fund-based limits vis-à-vis its large scale of operations, adequate net cash accruals against its modest debt obligations and exposure to moderate size of contingent liabilities in the form of BG against security deposits/mobilization advance/retention money/performance guarantee. These are albeit constrained by modest current ratio and unencumbered cash and bank balance. The fund-based bank lines of Rs.15.00 Cr remained utilized at an average of 89 percent for the 12 months ending September, 2020. Despite low exposure to the fund-based bank lines, SLMI managed to grow its scale of operations to a healthy level for the last 5 years ending March 31, 2020. Typically, civil contractors can achieve revenue of 6-9x of its fund-based (SOD/CC) limit. SLMI has been achieving higher revenue which is 15x of its SOD limit. SLMI generated accruals of Rs.18.25 Cr in FY2020 against debt obligation of Rs.4.77 Cr. The company is expected to generate adequate accruals in the range of Rs.18-21 Cr against its modest debt obligations. The liquidity is also aided by exposure to moderate contingent liabilities in the form of BG. SLMI's BG limits have remained utilized at an average of 77.68 percent over the past 12 months ending September, 2020. Out of total limit of Rs.52.00 Cr, the BG exposure was to the tune of Rs.38.41 Cr as on September, 2020. The above factors are partially constrained by its modest current ratio and unencumbered cash and bank balance. SLMI had modest unencumbered cash and bank balance of Rs.0.10 Cr and current ratio of 1.38 Cr as on March 31, 2020. Acuité believes that SLMI's liquidity will remain adequate over the medium term backed by lower reliance on fund-based debt, healthy accruals and promoters' perceptiveness of converting overdraft limit to cash credit limit.

Rating Sensitivities

- Timely execution of its order book leading to substantial improvement in scale of operations while maintaining profitability margins over the medium term
- Stretch in working capital cycle, leading to an increase in working capital borrowing and weakening of financial risk profile and liquidity.

Outlook: Stable

Acuité believes that SLMI will continue to benefit over the medium term due to its experienced management, established track record and healthy order book providing adequate revenue visibility. The outlook may be revised to 'Positive', in case of timely execution of its unexecuted order book and successful bidding of orders in the pipeline, leads to higher-than-expected revenues and profitability, while maintaining its capital structure. Conversely, the outlook may be revised to 'Negative' in case SLMI registers lower-than-expected revenues and profitability or any significant stretch in its working capital management or larger-than-expected debt-funded capital expenditure leads to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	230.24	183.88
PAT	Rs. Cr.	12.88	7.32
PAT Margin	(%)	5.59	3.98
Total Debt/Tangible Net Worth	Times	0.37	0.47
PBDIT/Interest	Times	5.67	4.26

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

SLMI's rating was withdrawn with Issuer not cooperating status with CARE Ratings, through its rating rationale dated October 13, 2020. The reason provided by CARE is non-furnishing of information by SLMI.

Any other information

None

Material Covenants

None

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
- Infrastructure Entities - 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)

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
Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BBB/ Stable (Assigned)
Proposed Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB/ Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	52.00	ACUITE A2 (Assigned)
Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A2 (Assigned)

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About Acuité Ratings & Research:

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