

**Press Release**  
**SLMI INFRAPROJECTS PRIVATE LIMITED**  
**June 02, 2023**  
**Rating Assigned and Reaffirmed**



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	19.20	ACUITE BBB-   Stable   Assigned	-
Bank Loan Ratings	18.00	ACUITE BBB-   Stable   Reaffirmed	-
Bank Loan Ratings	51.00	-	ACUITE A3+   Assigned
Bank Loan Ratings	74.00	-	ACUITE A3+   Reaffirmed
<b>Total Outstanding Quantum (Rs. Cr)</b>	162.20	-	-

**Rating Rationale**

Acuite has reaffirmed its long-term rating of '**Acuite BBB-**' (read as '**Acuite t riple B minus**') and short-term rating of '**Acuite A3+**' (read as '**Acuite A three plus**') on the Rs. 92 crore bank facilities of SLMI Infra Projects Private Limited (SIPL). The outlook is '**stable**'.

Acuite has assigned its long-term rating of '**Acuite BBB-**' (read as '**Acuite t riple B minus**') and short-term rating of '**Acuite A3+**' (read as '**Acuite A three plus**') to the additional Rs 70.20 crore bank facilities of SLMI Infra Projects Private Limited. Outlook is '**stable**'.

**Rationale for reaffirming the rating:**

The reaffirmation of rating factors led to an improvement in revenue in FY22 as the operations of the company improved post-COVID. Further, the company has reported similar growth in revenue in FY23 (provisionals). The reaffirmation of the rating also factors in a healthy financial risk profile. However, the rating is constrained by high geographical and customer concentration risks. Acuite believes that the operations of the company will further improve in the medium term, with a healthy order book of Rs. 520.80 crore providing revenue visibility. Maintaining the EBITDA margins at similar levels while improving revenue and managing working capital efficiently will be key monitorable aspects.

**About the Company**

SLMI Infra Projects Private Limited (SLMI), formerly known as Sree Lakshmi Metal Industries and Constructions, 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 involving 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 a 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 manifests the company's established track record of operations and the extensive experience of its promoters. The promoters have 30 years of individual experience in the infrastructure construction industry. Since inception, SLMI has been executing projects floated through tenders by the government and civic bodies in Telangana. By pursuing numerous orders for its key principals for more than two decades, SLMI is presently registered as a special Class I contractor with the Roads and Bridges (R&B) division in Telangana. The promoter's extensive industry experience, established track record, and timely execution of past projects have enabled SLMI to establish long-standing relationships with its key suppliers and principals. Currently, SIPL has orders worth Rs. 1041.60 crore from the Ministry of Road Transport and Highways, which are to be executed in the next 12–36 months. 100% of the order book value pertaining to the Telangana region, which draws significant geographical concentration risk on the revenue profile of the company. However, the geographical concentration risk is mitigated to some extent by timely receivables, as the company only undertakes those projects that are specially funded by the central or state government.

#### **Improvement in operations post-COVID:**

The operations of the company have improved post-COVID-induced lockdown, which is evident from the improvement in revenue for FY22 to Rs. 128.97 crore from Rs. 91.15 crore in FY21. Further, the revenue was improved to Rs. 186.48 crore in FY23 (provisional). The company was able to maintain its EBITDA margins in the range of 11–11.5 percent in the past 4 years. In FY23 (provisional), the company reported an EBITDA margin of 11.01. The company undertakes only those projects that yield higher profitability. The company has leased an asphalt quarry located in Hyderabad. This quarry meets around 60 percent of the company's asphalt requirements for laying roads. This captive consumption is one of the key factors in maintaining stable EBITDA margins over the past 3–4 years. Acuite believes that the company's revenue will bounce back to the historic levels of Rs. 200–Rs. 220 crore on account of improved operations and a healthy order book, providing revenue visibility in the medium term.

#### **Above-average financial risk profile:**

The financial risk profile of the company is above average, marked by moderate net worth, healthy debt protection metrics, and a healthy debt-to-equity ratio. The net worth of the company stood at Rs. 78.55 crore as of March 31, 2022, as against Rs. 71.57 crore last year. The company has had healthy gearing in the range of 0.5 to 0.20 times in the past 3 years. The gearing of the company stood at 0.25 times as of March 31, 2022. Low reliance on long-term debts and moderate utilisation of fund-based utilisation have resulted in healthy debt-to-equity and debt protection metrics. The debt protection metrics of the company have improved in FY22; the interest coverage ratio and debt service coverage ratio stood at 5.69 times and 4.20 times, respectively, as of March 31, 2022, compared to 3.76 times and 1.37 times, respectively, in the previous year. Total outside liabilities to tangible net worth stood at 0.53 times as of March 31, 2022. Debt to EBITDA stood at 1.25 times as of March 31, 2022, compared to 1.67 times as of March 31, 2021. Acuite believes that the financial risk profile of the company will remain above average in the medium term as the company is not planning for any long-term debts.

### Weaknesses

**Moderately managed working capital:**

The company's working capital operations are moderately intensive, which is evident from the gross current asset (GCA) days of 212 as of March 31, 2022, as against 284 days in FY21. There is significant improvement in receivable days, which stood at 10 days as of March 31, 2022. Inventory days stood at 105 as of March 31, 2022. Generally, the company receives the bills within 30 days for highway projects. SLMI pays the raw material creditors within 0–30 days; certain portions of the creditors pertain to expenses payable to sub-contractors, resulting in creditor days of 110 days as of March 31, 2022. The moderate GCA cycle has led to moderate utilisation of fund-based limits at an average of 70 percent in the past 12 months ending FY22. Non-fund-based BG was utilised fully until December 2022.

### **High geographic and customer concentration risk on the revenue profile:**

Currently, SIPL has orders worth Rs. 1041.60 crore from the Ministry of Road Transport and Highways, which are to be executed in the next 12–36 months. 100% of the order book value pertaining to the Telangana region, which draws significant geographical concentration risk on the revenue profile of the company. However, the geographical concentration risk is mitigated to some extent by timely receivables, as the company only undertakes those projects that are specially funded by the central or state government.

### **Tender-based nature of operations**

SLMI executes only tender-based projects from government bodies, with a low reliance on subcontract work. Once the tender is allotted, earnest money deposits (EMD) in the range of 2.5–7 percent are deposited against the bank guarantee. The company raises bills on a monthly basis. The retention money is usually 7.5 percent of the contract value, which is in a few instances released against a bank guarantee. Since the nature of operations is tender-based, the business depends on its ability to bid for contracts successfully. SLMI has a success rate of 75 percent in bidding. Acuite believes that SLMI's revenue and profitability are susceptible to the risks inherent in tender-based operations, which limit pricing flexibility in an intensely competitive industry.

### **Rating Sensitivities**

- Timely execution of its order book leading to substantial improvement in scale of operations while maintaining profitability margins over the medium term.
- Sustainable improvement in Profitability, Leverage and Solvency position of the company.
- Any significant delays in receivables from customers.
- Any deterioration in working capital cycle and liquidity profile of the company.

### **Material covenants**

None

### **Liquidity Position Adequate**

The liquidity position of the company is adequate, as the company has sufficient net cash accruals (NCA) against its debt repayment. The company has generated NCA in the range of Rs. 18.25 crore to Rs. 10.51 crore ending FY22, against debt repayments in the range of Rs. 4.7 crore to Rs. 0.36 crore ending FY22. The current ratio of the company stood at 2.49 times as of March 31, 2022, compared to 2.95 times as of the previous year. The company had unencumbered cash and bank balances of Rs. 15.47 crore as of March 31, 2022. The bank's limit utilisation stood moderately high at 70 percent in the past 12 months, ending February 28, 2023. Acuite believes that the company's liquidity position is likely to remain adequate in the medium term as the company has already generated NCAs of Rs. 14.87 crore till March 31, 2023 (provisional) against an estimated debt repayment of Rs. 1.10 crore for the same period. The current ratio is estimated to be in the range of 2.52–3.00 times for FY23.

## **Outlook: Stable**

The outlook revision to 'Stable' is primarily driven by the significant improvement in the operating income and also presence of healthy order book providing medium term revenue visibility. The outlook may be revised to 'Negative' in case of company's inability to complete the orders on time resulting in low recovery, deterioration in operating margins and financial risk profile. Conversely, the outlook may be revised to 'Positive' in case of more than expected improvement in revenue, in case of working capital being efficiently managed, improvement in operating margins leading to improvement in financial risk profile.

## **Other Factors affecting Rating**

None

## Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	128.97	91.15
PAT	Rs. Cr.	6.99	3.32
PAT Margin	(%)	5.42	3.64
Total Debt/Tangible Net Worth	Times	0.25	0.29
PBDIT/Interest	Times	5.69	3.76

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

SLMI's rating was flagged as Issuer not cooperating (INC) status with CRISIL Ratings, through its rating rationale dated May 17, 2022. The reason provided by CRISIL ratings is non-furnishing of information by SLMI.

CARE Ratings also flagged the company INC, vide its press release dated 13.10.2020, rating the company to CARE B+/stable/A4

### Any other information

None

### Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.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>
- Complexity Level Of Financial Instruments: <https://www.acuite.in/view-rating-criteria-55.htm>

### Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on [www.acuite.in](http://www.acuite.in).

## Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
08 May 2023	Bank Guarantee	Short Term	74.00	ACUITE A3+ (Reaffirmed)
	Cash Credit	Long Term	18.00	ACUITE BBB-   Stable (Reaffirmed)
23 Feb 2022	Proposed Cash Credit	Long Term	2.00	ACUITE BBB-   Negative (Downgraded from ACUITE BBB   Stable)
	Cash Credit	Long Term	18.00	ACUITE BBB-   Negative (Downgraded from ACUITE BBB   Stable)
	Bank Guarantee	Short Term	62.00	ACUITE A3+ (Downgraded from ACUITE A2)
	Proposed Bank Guarantee	Short Term	10.00	ACUITE A3+ (Downgraded from ACUITE A2)
28 Oct 2020	Proposed Secured Overdraft	Long Term	5.00	ACUITE BBB   Stable (Assigned)
	Secured Overdraft	Long Term	15.00	ACUITE BBB   Stable (Assigned)
	Bank Guarantee	Short Term	52.00	ACUITE A2 (Assigned)
	Proposed Bank Guarantee	Short Term	20.00	ACUITE A2 (Assigned)

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Union Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	74.00	ACUITE A3+   Reaffirmed
Union Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	51.00	ACUITE A3+   Assigned
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	18.00	ACUITE BBB-   Stable   Reaffirmed
Union Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	15.00	ACUITE BBB-   Stable   Assigned
Union Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	4.20	ACUITE BBB-   Stable   Assigned

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### About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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.

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