

Press Release

Suprada Constructions Private Limited

December 11, 2020

Rating Assigned



Total Bank Facilities Rated*	Rs. 180.00 Cr.
Long Term Rating	ACUITE BBB-/ Outlook: Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has assigned the long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on the Rs. 180.00 Cr bank facilities of Suprada Constructions Private Limited. The outlook is '**Stable**'.

Suprada Constructions Private Limited (SCPL) was established initially as a partnership firm in 1982 under the name 'Suprada Constructions Company', by Mr. U Seetharam Shetty. It is based out of Dharwad district of Karnataka and is engaged in infrastructure development projects like drinking water projects, canal embankment, underground drainage, road development and construction of buildings for various government and private players.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of SCPL for arriving at the rating.

Key Rating Drivers

Strengths

- Experienced management coupled with long track of operations**

SCPL, a special-class civil contractor, has been into existence for more than three decades with its specialty in laying pipeline for water supply and sewerage under the central government-led scheme 'Jal Jivan Mission' (erstwhile known as National Rural Drinking Water Programme), majorly in the state of Karnataka. Mr. U Seetharam Shetty, the promoter of SCPL, is having 53 years of experience in the line of civil construction. With intent to bid for high value projects, 'Suprada Construction Company' (partnership firm) had been reconstituted into SCPL. SCPL has executed multiple orders which included construction work of water supply components, water supply and underground drainage systems, sports complex, bridges, series of residential school complexes, factories and manufacturing plants and others. With promoter's extensive industry experience and timely execution of past projects, SCPL has been able to establish a long-standing relationship with its suppliers and various government bodies. As of March 31, 2020, SCPL has an unexecuted order book position of Rs.446.41 Cr; estimated to be executed over the next 24-36 months providing adequate revenue visibility over the medium term coupled with expected orders to be received in SCPL's favour amounting about ~Rs.500 Cr by March 31, 2021. Acuite believes that the promoter's extensive industry experience and established relation with its principal contractors and suppliers will aid SCPL's business risk profile over the medium term.

- Moderate scale of operations and sustained profitability**

SCPL's scale of operations is moderate, with revenue improving from Rs.111.74 Cr in FY2019 to 152.09 Cr in FY2020. The operating margin remained sustained at 11 to 14 percent over the last three years ending FY2020. The revenue growth is on account of continuous execution of its order book while improvement in margins is attributable to a comparatively lower amount of sub-contract work and focus on government funded high-margin yielding orders. SCPL has booked year-to-date revenue of Rs.79.6 Cr and operating margin of 15.7 percent until September, 2020. The lower year-to-date revenue was on account of the company remaining non-operational in the month of April and May, 2020 due to outbreak of Covid-19. Despite lower year-to-date revenue, the overall FY2021 revenue is expected to show healthy Y-o-Y growth backed by the execution of its healthy order book. The operating margins are expected to be marginally between similar range. Acuite believes that SCPL's scale of operations is likely to improve yet remain moderate over the medium term, given the timely execution and billing of its unexecuted order book in hand.

- **Average financial risk profile supported by comfortable debt protection metrics**

SCPL's financial risk profile is average, marked by average capital structure and supported by comfortable debt protection metrics. SCPL has a healthy net worth at Rs. 33.48 Cr as on March 31, 2020 as against Rs.15.72 Cr as on previous year due to infusion of additional Rs.10 Cr equity share capital during the year. Healthy net worth and moderate debt levels resulted in average gearing (debt-to-equity) and total outside liabilities to tangible networth (TOL/TNW) ratio of 1.53 times and 3.08 times respectively, as on March 31, 2020 vis-à-vis 4.45 times and 6.49 times March 31, 2019.

Debt protection metrics were also comfortable, reflected in interest coverage (ICR) and net cash accrual to total debt ratio (NCA/TD) of 2.32 times and 0.19 times, respectively, in FY2020 vis-à-vis 2.42 times and 0.11 times for FY2019. Its accruals are expected in the range of Rs. 15.0-25.0 Cr over the medium term, against repayment obligations of about Rs. 3 Cr to Rs.4 Cr. Acuite believes that in the absence of any major debt-funded capital expenditure plan in the near term; healthy cash accruals supported by lower reliance on the debt will lead to healthy financial risk profile over the medium term.

Weaknesses

- **Tender based nature of operations**

SCPL executes only tender based projects from government & private players with no major reliance on sub-contract work. Once the tender is allotted, EMD of 1-1.5 per cent is deposited. The company raises bills on a monthly basis. SCPL has the flexibility to avail mobilization advance but mostly refrain from the same due to the high interest costs. However, for most of the orders, the company avails mobilization advances since they are interest free in nature. The retention money is usually 7.5 percent of the contract value (Few projects have 5 percent performance guarantee) which is released after a defect liability period of 1-2 years; which is usually the O&M of the project. Since the nature of operations is tender based, the business depends on the ability to bid for contracts successfully. SCPL has a success rate of 30 to 40 percent in bidding. SCPL's revenue and profitability are susceptible to risks inherent in contract-based operations. Besides, tender based operations limit pricing flexibility in an intensely competitive industry. Acuite believes that SCPL's revenue and profitability are susceptible to risks inherent in tender based operations which limit pricing flexibility in an intensely competitive industry.

- **Working capital intensive nature of operations**

The operations are working capital intensive with GCA days in the range of 227-300 days over the last 3 years ending March 31, 2020. The GCA days are marked by high inventory days and moderate debtor days. The high GCA days also include the other current asset portion in the form of security deposits and EMD.

Debtor and inventory days were moderate as on March, due to Covid-19 outbreak wherein the quality certifying engineers couldn't visit the construction site and give clearance to release the bill. These are partially offset by high creditor days. It pays the RM creditors within 1-2 months; however, certain portion relates to expenses payable to sub-contractors. The High GCA days are on account of high other current assets like retention money, security deposits, etc. The high GCA cycle has led to high utilization of bank lines of Rs.15 Cr to Rs 16 Cr over the past six months ending October 31, 2020. Acuite believes that the operations of the SCPL will remain working capital intensive on account of continuous submission of security deposits and retention money.

- **Significant geographical and segmental concentration in revenue profile**

SCPL executes orders majorly across Karnataka. Out of the total outstanding orders of approx. Rs.446.4 Cr as on March 31, 2020, 98 percent of orders are from Karnataka, thereby, leading to significant geographical concentration risk. Further, SCPL's order book of Rs.446.4 Cr is majorly for water supply work; leading to significant segmental concentration risk too. However, the company has previously executed various types of contracts viz. layout and development and road works, underground drainage works, building works and industrial works, etc. across the state. Currently, major thrust is on water supply scheme and irrigation works by the Government of Karnataka and high budgetary allocations have been made for the same. Besides, this sector being on priority the receivable realisations period become faster, hence SCPL's focus is more on these projects.

Rating Sensitivities

1. Timely execution of the order book leading to substantial improvement in scale of operations while maintaining profitability margins
2. Stretch in working capital cycle, leading to an increase in working capital borrowings and weakening of financial risk profile and liquidity

Liquidity: Adequate

SCPL's liquidity is adequate, marked by high unencumbered cash and bank balance in the form of fixed deposits, adequate net cash accruals against its modest debt obligations, moderate current ratio. SCPL generated cash accruals of Rs.9.64 Cr in FY2020 against debt obligations of Rs.4.56 Cr for the same period. The cash accruals of the company are estimated to remain in the range of around Rs.15 -25.0 Cr during FY2021-23 against repayment obligations of Rs.3.5 Cr to Rs.4.5 Cr for the same period. The average fund-based working capital utilization stood high between 95-99 percent for the past 12 months ended October, 2020. The company has maintained healthy unencumbered cash and bank balances over the last three years ending March 31, 2020. The cash and bank balance as on March 31, 2020 stood at Rs.11.75 Cr in the form of fixed deposits. The current ratio stood at 1.39 times as on March 31, 2020. Acuite believes that SCPL's liquidity will remain adequate over the medium term backed by adequate cash accruals against repayment obligations.

Outlook: Stable

Acuite believes that SCPL will continue to benefit over the medium term due to its experienced management and healthy order book providing revenue visibility. The outlook may be revised to 'Positive', in case of timely execution of its unexecuted order book leading to higher-than-expected revenues and profitability with improvement in working capital management. Conversely, the outlook may be revised to 'Negative' in case SCPL registers lower-than-expected decline in 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.	152.09	111.74
PAT	Rs. Cr.	7.76	5.72
PAT Margin	(%)	5.10	5.12
Total Debt/Tangible Net Worth	Times	1.53	4.45
PBDIT/Interest	Times	2.32	2.42

Status of non-cooperation with previous CRA

Brickworks Rating, vide its press release dated March 18, 2020, has denoted the rating of Suprada Constructions Private Limited as 'BWR C/A4; ISSUER NOT COOPERATING' on account of lack of adequate information required to monitor the ratings.

Any other information

Not Applicable

Any 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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	23.00	ACUITE BBB-/Stable (Assigned)

Working Capital Demand Loan	Not Applicable	Not Applicable	Not Applicable	2.30	ACUITE BBB-/Stable (Assigned)
Term Loan	Sep, 20	11.70%	Mar, 21	1.26	ACUITE BBB-/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	16.50	ACUITE BBB-/Stable (Assigned)
Term Loan	Sep, 20	8.70%	Aug, 24	3.24	ACUITE BBB-/Stable (Assigned)
Term Loan	Nov, 16	12.00%	June, 26	4.05	ACUITE BBB-/Stable (Assigned)
Term Loan	Jan, 18	10.50%	Sep, 24	3.93	ACUITE BBB-/Stable (Assigned)
Term Loan	Aug, 20	9.25%	Sep, 24	0.55	ACUITE BBB-/Stable (Assigned)
Term Loan	Feb, 18	10.50%	Jul, 22	0.31	ACUITE BBB-/Stable (Assigned)
Term Loan	Feb, 16	12.50%	Oct, 24	0.68	ACUITE BBB-/Stable (Assigned)
Term Loan	Jul, 15	13.80%	Dec, 21	0.16	ACUITE BBB-/Stable (Assigned)
Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	3.90	ACUITE BBB-/Stable (Assigned)
Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	0.12	ACUITE BBB-/Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	70.00*	ACUITE BBB-/Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BBB-/Stable (Assigned)
Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE BBB-/Stable (Assigned)
Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BBB-/Stable (Assigned)

*Inland letter of credit sublimit of Rs.20 Cr

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