

Press Release

Suprada Constructions Private Limited

January 24, 2022



Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	70.00	ACUITE BBB- Negative Assigned	-
Bank Loan Ratings	180.00	ACUITE BBB- Negative Reaffirmed Stable to Negative	-
Total Outstanding Quantum (Rs. Cr)	250.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuité has reaffirmed 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 (SCPL). The outlook has been revised from 'Stable' to 'Negative'.

Acuité has assigned the long-term rating of '**ACUITE BBB-**' (read as ACUITE triple B minus) on the Rs. 70.00 Cr. bank facilities of SCPL. The outlook is 'Negative'.

Rationale for rating reaffirmation and revision in outlook

The revision in outlook takes into account the increased dependence on external funding indicating liquidity constraints. The fund based limit utilization stood at an average of ~100 percent for the twelve-month period ended November 2021, despite availing temporary overdraft. Additionally, Covid loan of ~Rs. 9.07 Cr has been availed by the company in FY2021. The stretch in liquidity can be attributed to increase in receivable days to 137 in FY2021 against 99 in the previous year, fall in creditor days to 205 in the current year from 344 in FY2020 and considerable sum withheld as retention money. Also, going forward the company's ability to accept fresh orders is dependent on the availability of proposed bank facilities.

The rating reaffirmation draws comfort from the extensive management experience and the long track record of operations, improvement in revenue with CAGR of 23 percent since FY2019. Further, the rating takes into account the healthy order book with unexecuted orders of Rs. 445 Cr with no substantial delays in order execution. However, the outbreak of Covid - 19 resulted into liquidity constraints thereby adversely impacting the financial risk profile marked by moderate gearing and average debt protection metrics. Further, the rating is constrained due to geographical and segmental concentration in the revenue profile. Also, further deterioration in the liquidity profile will be a key rating sensitivity.

About the Company

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

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

Key Rating Drivers

Strengths

- Experienced management and long track record 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.

Acuité 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.

- Improvement in operations and healthy order book:**

SCPL's scale of operations is moderate, with revenue improving from Rs.111.74 Cr in FY2019 to 168.04 Cr in FY2021 along with sustained operating margin of ~14 percent across all years. The revenue growth is on account of continuous execution of its order book while improvement in margins is attributable to a comparatively lower sub-contracting and focus on government funded high-margin yielding orders. The company has earned a revenue of ~Rs. 95 Cr for the period ended November 2021 of FY2022. The revenue of the company in April and May 2021 was adversely impacted due to the second wave of covid 19. However, the healthy order book is expected to provide adequate revenue visibility for the company over the medium term. The company has an unexecuted order book of Rs. 445.54 Cr as on November 30, 2021. Further, SCPL's expected to receive fresh order of ~Rs.500 Cr by March 31, 2022.

Acuité believes that SCPL's timely execution and billing of its unexecuted order book in hand will remain key rating sensitivity factor.

- Average financial risk profile and debt protection metrics:**

SCPL has an average financial profile marked by moderate net worth and gearing (debt to equity) and average debt protection metrics. The net worth of the company stood at Rs. 42.35 Cr as on March 31, 2021 as against Rs. 33.48 Cr as on March 31, 2020 on account of accretion to reserves. The total debt of the company as on March 31, 2021 is Rs. 68.38 Cr as against Rs. 51.38 Cr in the preceding financial year. The total debt of Rs. 68.38 Cr as on March 31, 2021 consists of long term debt of Rs. 22.86 Cr, short term debt of Rs. 38.69 Cr and unsecured loan from promoters of Rs. 6.83 Cr. The company in the current year availed covid loan of Rs. 9.07 Cr, also there was an increase in the short term debt by Rs. 8.28 Cr due to increase in bank limit utilization. The gearing (debt to equity) stood at 1.61 times as on 31st March 2021 as against 1.53 times as on 31st March 2020. The company follows aggressive leverage policy with peak gearing of 4.45 times as on March 31, 2019. The interest coverage (ICR) and debt service coverage ratio (DSCR) stood at 2.42 times and 1.47 times in FY2021 against 2.32 times and 2.03 times in FY2020 respectively.

Acuité expects the company to maintain a stable financial risk profile subject to improvement in the liquidity and the company's scale of operations.

Weaknesses

- **Working capital intensive nature of business:**

The operations are working capital intensive with GCA days of 279 as on March 31, 2021. The GCA days are marked by debtor and inventory days of 137 and 77 respectively in FY2021. GCA days also takes into account other current asset majorly consisting of earnest money deposit (EMD), security deposit and retention money. At the time of tender allotment, EMD of 1-1.5 per cent is deposited. On bill raising 10 percent is withheld as retention money during the defect liability period thereby resulting into high GCA days. The high GCA cycle has led to high utilization of bank lines, which remain fully utilized for the twelve- month period ended November 2021.

Acuité believes SCPL's ability to improve its working capital cycle will remain key monitorable.

- **Tender based nature of operations:**

SCPL executes only tender based projects from government & private players with no major reliance on sub-contract work. The business depends on the ability to bid for contracts successfully. SCPL has a success rate of 30 to 40 percent in bidding. Tender based operations limit pricing flexibility in an intensely competitive industry.

Acuité 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.

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

SCPL executes presently executes orders in the state of Karnataka thereby, leading to significant geographical concentration risk. Further, SCPL's order book of Rs.445.54 Cr is majorly for water supply work; leading to significant segmental concentration risk too. The major thrust is on water supply scheme and irrigation works by the Government of Karnataka due to high budgetary allocations made apart from faster receivable realization. Also, the expected orders of ~Rs. 500 Cr are towards water supply projects. The company does not intend to diversify geographically in the near term due to uncertainties on account of covid 19.

Rating Sensitivities

- Substantial improvement in revenue with sustained profitability.
- Any further elongation of working capital cycle thereby resulting into further deterioration of the liquidity profile and the capital structure.

Material covenants

None.

Liquidity Position: Stretched

SCPL generated net cash accruals of Rs. 9.64 Cr and Rs. 11.54 Cr against repayment obligation of Rs. 4.56 Cr and Rs. 9.06 Cr in FY2020 and FY2021 respectively. Going forward SCPL's net cash accruals are expected to be Rs. 12.75 Cr and Rs. 14.21 Cr with debt repayments of Rs. 8.29 Cr and Rs. 9.07 Cr in FY2022 and FY2023 respectively. The Gross Current Asset (GCA) days were around 279 as on March 31, 2021 against 259 in the previous year. Further, the creditor days reduced to 205 as on March 31, 2021 against 344 in the previous year. The working capital intensive nature of operations requires the company to depend on external borrowings, with average bank limit utilization of ~100 percent in the twelve-month period, ending November 2021. Also, the non-fund based limit utilization stood at 88 percent. The company in order to procure fresh orders is highly dependent on the availability of proposed banking funds. The current ratio of the company stood at 1.50 times as on March 31, 2021. SCPL has maintained a cash and bank balance of Rs. 2.63 Cr as on March 31, 2021 and Rs. 0.36 Cr in the previous year.

Acuité believes that the liquidity of the company is likely to remain stretched over the short term on account of highly working capital intensive operations and low unutilized bank limits which is mitigated to some extent by the increase in cash and bank balances.

Outlook: Negative

Acuité has revised the outlook on SCPL to 'Negative' on account of deterioration in the liquidity profile of the company. Further, the stretched liquidity has moderately impacted the financial risk profile of the company. The rating may be further downgraded in case of continued challenges in liquidity management thereby impacting the operations and the debt structure. Conversely, the outlook may be revised to 'Stable' if the company is able to show significant improvement in liquidity profile supported by reduction in receivable days.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	168.04	152.09
PAT	Rs. Cr.	8.87	7.76
PAT Margin	(%)	5.28	5.10
Total Debt/Tangible Net Worth	Times	1.61	1.53
PBDIT/Interest	Times	2.42	2.32

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: <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
11 Dec 2020	Term Loan	Long Term	1.26	ACUITE BBB- Stable (Assigned)
	Proposed Term Loan	Long Term	0.12	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	4.05	ACUITE BBB- Stable (Assigned)
	Proposed Bank Guarantee	Long Term	20.00	ACUITE BBB- Stable (Assigned)
	Bank Guarantee	Long Term	70.00	ACUITE BBB- Stable (Assigned)
	Bank Guarantee	Long Term	15.00	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	0.55	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	3.24	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	3.93	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	0.31	ACUITE BBB- Stable (Assigned)

Term Loan	Long Term	0.16	ACUITE BBB- Stable (Assigned)
Proposed Term Loan	Long Term	3.90	ACUITE BBB- Stable (Assigned)
Term Loan	Long Term	0.68	ACUITE BBB- Stable (Assigned)
Working Capital Demand Loan	Long Term	2.30	ACUITE BBB- Stable (Assigned)
Cash Credit	Long Term	23.00	ACUITE BBB- Stable (Assigned)
Cash Credit	Long Term	16.50	ACUITE BBB- Stable (Assigned)
Proposed Bank Guarantee	Long Term	15.00	ACUITE BBB- Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Canara Bank	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	90.00	ACUITE BBB- Negative Reaffirmed Stable to Negative
IDBI Bank	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BBB- Negative Reaffirmed Stable to Negative
Canara Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	23.00	ACUITE BBB- Negative Reaffirmed Stable to Negative
IDBI Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	16.50	ACUITE BBB- Negative Reaffirmed Stable to Negative
Not Applicable	Not Applicable	Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BBB- Negative Reaffirmed Stable to Negative
Not Applicable	Not Applicable	Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE BBB- Negative Assigned
Not Applicable	Not Applicable	Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	8.50	ACUITE BBB- Negative Assigned
Not Applicable	Not Applicable	Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.50	ACUITE BBB- Negative

							Assigned
Not Applicable	Not Applicable	Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	0.12	ACUITE BBB- Negative Reaffirmed Stable to Negative
Not Applicable	Not Applicable	Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	6.37	ACUITE BBB- Negative Assigned
Not Applicable	Not Applicable	Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	0.19	ACUITE BBB- Negative Reaffirmed Stable to Negative
IDBI Bank	Not Applicable	Term Loan	Not available	Not available	Not available	3.24	ACUITE BBB- Negative Reaffirmed Stable to Negative
HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	4.05	ACUITE BBB- Negative Reaffirmed Stable to Negative
ICICI Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	3.34	ACUITE BBB- Negative Reaffirmed Stable to Negative
ICICI Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	0.52	ACUITE BBB- Negative Reaffirmed Stable to Negative
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Axis Bank	Not Applicable	Term Loan	Not available	Not available	Not available	0.31	ACUITE BBB- Negative Reaffirmed Stable to Stable
SVC Co- Op Bank Limited	Not Applicable	Term Loan	Not available	Not available	Not available	0.68	ACUITE BBB- Negative Reaffirmed Stable to Negative
Bank of Baroda	Not Applicable	Term Loan	Not available	Not available	Not available	0.16	ACUITE BBB- Negative Reaffirmed Stable to Negative
Canara Bank	Not Applicable	Term Loan	Not available	Not available	Not available	1.26	ACUITE BBB- Negative Reaffirmed Stable to Negative
Canara Bank	Not Applicable	Working Capital Demand Loan (WCDL)	Not available	Not available	Not available	2.30	ACUITE BBB- Negative Reaffirmed Stable to Negative
HDFC Bank Ltd	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	0.43	ACUITE BBB- Negative Reaffirmed Stable to Negative
IDBI Bank	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	1.63	ACUITE BBB- Negative Assigned
Canara Bank	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	3.90	ACUITE BBB- Negative Reaffirmed Stable to

Canara Bank: Bank guarantee (BG) includes letter of credit (LC) Rs. 30.00 Cr as sub-limit.

IDBI Bank: Bank guarantee (BG) includes LC Rs. 5.00 Cr as sub-limit.

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About Acuité Ratings & Research

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