

Press Release

Suprada Constructions Private Limited

November 25, 2022



Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	250.00	ACUITE BBB- Stable Reaffirmed Negative to Stable	-
Bank Loan Ratings	50.00	ACUITE BBB- Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	300.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed the long term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on the Rs. 250.00 Cr. bank facilities of Suprada Constructions Private Limited (SCPL). The outlook has been revised from 'Negative' to '**Stable**'.

Acuite has assigned the long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on the Rs. 50.00 Cr. bank facilities of SCPL. The outlook is '**Stable**'

Rationale for revision in outlook:

The outlook revision takes into account the improved order book position, moderate non – fund based limit utilization and moderate gearing (debt to equity) at 1.23 times as on March 31, 2022. The unexecuted order book stood at Rs. 1,098 Cr as on September 30, 2022 and the average non-fund based limit utilization reduced to 57 percent for the 7 month period ended October 2022 against 88 percent for the 12 month period ended in November 2021, also further expected enhancement in facilities will enable the company procure new orders.

However, the rating remains constrained due to high fund based limit utilization due to reduction in creditor days from 209 in FY2021 to 165 in FY2022, any further deterioration in the liquidity profile will impart a negative bias to the rating.

About the Company

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

Acuite 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.152.09 Cr in FY2020 to 185.71 Cr in FY2022 along with sustained operating margin of ~14 percent across all years. The revenue growth and stable operating margins are attributable continuous execution of order book and comparatively lower sub-contracting and focus on government funded high-margin yielding orders. The company has earned a revenue of ~Rs. 92 Cr for the period ended September 2022 of FY2023. 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. 1,098 Cr as on September 30, 2022. Further, SCPL's expected to receive fresh order of ~Rs.670 Cr by December 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. 54.18 Cr as on March 31, 2022 as against Rs. 42.35 Cr as on March 31, 2021 on account of accretion to reserves. The total debt of the company as on March 31, 2021 is Rs. 66.38 Cr as on March 31, 2022 as against Rs. 68.38 Cr in the preceding financial year. The total debt consists of long term debt of Rs. 24.62 Cr, short term debt of Rs. 35.49 Cr and unsecured loan from promoters of Rs. 6.27 Cr. The company in the current year availed Rs. 3 Cr towards machinery purchase. The gearing (debt to equity) stood at 1.23 times as on 31st March 2022 as against 1.61 times as on 31st March 2021.

The company follows moderate leverage policy with peak gearing of 1.61 times as on March 31, 2021. The interest coverage (ICR) and debt service coverage ratio (DSCR) stood at 2.40 times and 1.31 times in FY2022 against 2.42 times and 1.47 times in FY2021 respectively.

Acuité expects the company to maintain a stable financial risk profile subject to improvement in the liquidity profile.

Weaknesses

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

The operations are working capital intensive with GCA days of 219 as on March 31, 2022. The GCA days are marked by debtor and inventory days of 122 and 89 respectively in FY2022. 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 seven month period ended October 2022.

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.

• **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, 97 percent of SCPL's order book of Rs.1,098 Cr consists for water supply work; leading to significant segmental concentration risk. 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. 670 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 the liquidity profile marked by low dependence on external borrowings along with reduction in GCA and WC cycle days.
- Substantial improvement in revenue while maintaining profitability.

Material covenants

None.

Liquidity: Adequate

SCPL has adequate liquidity marked by net cash accruals (NCA) of Rs. 12.44 Cr in 2022 against repayment obligations of Rs. 6.72 Cr. Going forward the cash accruals in FY2023 and FY2024 are expected to be around Rs. 21 Cr and Rs. 33 Cr against repayment obligation of Rs. 4.42 Cr and 4.11 Cr. However, GWSIPL liquidity highly depends on working capital management. The operations are working capital intensive as marked by GCA days and working capital cycle days of 219 and 47 respectively in FY 2022. This has led to reliance on working capital borrowings, the fund based limits remains utilized at ~90 percent the seven month period ended October 2022. The company has unencumbered cash and bank of 0.64 Cr as on March 31, 2022.

Outlook: Stable

Acuité believes that SCPL will maintain a 'Stable' outlook over the medium term owing to healthy order book, moderate financial risk profile and moderate non-fund based limit utilization along with expected facility enhancements. The outlook may be revised to 'Positive' in case of substantial improvement in both revenue while maintaining margins and working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of further deterioration in the working capital cycle thereby adversely impacting the liquidity profile.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	185.71	168.04

PAT	Rs. Cr.	9.38	8.87
PAT Margin	(%)	5.05	5.28
Total Debt/Tangible Net Worth	Times	1.23	1.61
PBDIT/Interest	Times	2.40	2.42

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

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

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
24 Jan 2022	Term Loan	Long Term	4.05	ACUITE BBB- Negative (Reaffirmed)
	Bank Guarantee	Long Term	15.00	ACUITE BBB- Negative (Reaffirmed)
	Proposed Term Loan	Long Term	0.19	ACUITE BBB- Negative (Reaffirmed)
	Working Capital Term Loan	Long Term	0.43	ACUITE BBB- Negative (Reaffirmed)
	Term Loan	Long Term	3.34	ACUITE BBB- Negative (Reaffirmed)
	Term Loan	Long Term	0.31	ACUITE BBB- Negative (Reaffirmed)
	Working Capital Demand Loan	Long Term	2.30	ACUITE BBB- Negative (Reaffirmed)
	Term Loan	Long Term	0.68	ACUITE BBB- Negative (Reaffirmed)
	Proposed Term Loan	Long Term	0.12	ACUITE BBB- Negative (Reaffirmed)
	Proposed Bank Guarantee	Long Term	50.00	ACUITE BBB- Negative (Assigned)
	Proposed Bank Guarantee	Long Term	8.50	ACUITE BBB- Negative (Assigned)
	Cash Credit	Long Term	23.00	ACUITE BBB- Negative (Reaffirmed)
	Term Loan	Long Term	0.52	ACUITE BBB- Negative (Reaffirmed)

	Term Loan	Long Term	0.16	ACUITE BBB- Negative (Reaffirmed)
	Proposed Cash Credit	Long Term	3.50	ACUITE BBB- Negative (Assigned)
	Cash Credit	Long Term	16.50	ACUITE BBB- Negative (Reaffirmed)
	Proposed Bank Guarantee	Long Term	15.00	ACUITE BBB- Negative (Reaffirmed)
	Working Capital Term Loan	Long Term	1.63	ACUITE BBB- Negative (Assigned)
	Working Capital Term Loan	Long Term	3.90	ACUITE BBB- Negative (Reaffirmed)
	Proposed Term Loan	Long Term	6.37	ACUITE BBB- Negative (Assigned)
	Term Loan	Long Term	1.26	ACUITE BBB- Negative (Reaffirmed)
	Term Loan	Long Term	3.24	ACUITE BBB- Negative (Reaffirmed)
	Bank Guarantee	Long Term	90.00	ACUITE BBB- Negative (Reaffirmed)
	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)
		Long		ACUITE BBB- Stable (Assigned)
11 Dec 2020	Proposed Bank Guarantee	Term	20.00	(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	Complexity Level	Quantum (Rs. Cr.)	Rating
Canara Bank	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	140.00	ACUITE BBB- Stable Reaffirmed Negative to Stable
IDBI Bank Ltd.	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	35.00	ACUITE BBB- Stable Reaffirmed Negative to Stable
Canara Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	28.00	ACUITE BBB- Stable Reaffirmed Negative to Stable
IDBI Bank Ltd.	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	20.00	ACUITE BBB- Stable Reaffirmed Negative to Stable
Not Applicable	Not Applicable	Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	40.00	ACUITE BBB- Stable Assigned
Not Applicable	Not Applicable	Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE BBB- Stable Assigned
Not Applicable	Not Applicable	Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE BBB- Stable Reaffirmed Negative to Stable
Not Applicable	Not Applicable	Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	Simple	0.20	ACUITE BBB- Stable Reaffirmed Negative to Stable
								ACUITE BBB- Stable

Canara Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	2.38	Reaffirmed Negative to Stable
IDBI Bank Ltd.	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	2.07	ACUITE BBB- Stable Reaffirmed Negative to Stable
HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	4.57	ACUITE BBB- Stable Reaffirmed Negative to Stable
ICICI Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	2.33	ACUITE BBB- Stable Reaffirmed Negative to Stable
ICICI Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	0.39	ACUITE BBB- Stable Reaffirmed Negative to Stable
SVC Co-Op Bank Limited	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	0.80	ACUITE BBB- Stable Reaffirmed Negative to Stable
Bank of Baroda	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	0.03	ACUITE BBB- Stable Reaffirmed Negative to Stable
Canara Bank	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	Simple	2.60	ACUITE BBB- Stable Reaffirmed Negative to Stable
IDBI Bank	Not	Working Capital	Not	Not	Not	Simple	1.63	ACUITE BBB- Stable Reaffirmed

Ltd.	Applicable	Term Loan	available	available	available			I Negative to Stable
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