

Press Release

SVS Mookambika Constructions Private Limited

December 24, 2020



Rating Assigned

Total Bank Facilities Rated*	Rs.50.50 Cr.
Long Term Rating	ACUITE BB / Stable (Assigned)
Short Term Rating	ACUITE A4+ (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long-term rating of '**ACUITE BB**' (**read as ACUITE double B**) and the short term rating of '**ACUITE A4+**' (**read as ACUITE A four plus**) on the Rs.50.50 Crore bank facilities of SVS Mookambika Constructions Private Limited (SVSMC). The outlook is '**Stable**'.

About the company

Andhra Pradesh based, SVS Mookambika Constructions Private Limited (SVSMC), was incorporated in the year 2009, by Mr. M. Satyanarayana Raju, who has more than 3 decades of experience in civil construction business. SVSMC undertakes civil construction activities primarily of Roads, Buildings, Bridges, Drains and such other allied activities for various government bodies like Ministry of Road Transport & Highways (MORTH), National Highway Authority of India (NHAI), Roads & Buildings (R&B), Public Works Department (PWD), Nabard, Panchayath Raj, Misc. Private Works. SVSMC, a Special Class Civil Contractor, is registered with NHAI, R&B, Panchayatraj, APIIC, Agricultural University of Andhra Pradesh and R&B, Panchayatraj of Orissa & PWD of Karnataka States. The Company is operating mainly in two states, i.e. Andhra Pradesh and Odisha.

The rating assigned to the bank facilities of SVSMC factors in its established track record of operations, experienced management, improving scale of operations, sustainable profitability margins and healthy order book position. These strengths are offset by its working capital intensive nature of operations, significant geographical concentration risk.

Analytical Approach

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

Key Rating Drivers

Strengths

- Experienced management; established track record of operations and healthy order book position providing medium term revenue visibility**

SVSMC is promoted by Mr. Satyanarayana Raju, who has more than 3 decades of experience in civil construction business. SVSMC is a special class contractor and undertakes civil construction activities primarily of Roads, Buildings, Bridges, Drains and such other allied activities for various government bodies like Ministry of Road Transport & Highways (MORTH), National Highway Authority of India (NHAI), Roads & Buildings (R&B), Public Works Department (PWD), Nabard, Panchayath Raj, Misc. Private Works. Promoters' extensive experience and established track record of operations and past track record of completion of projects has helped the company in directly bidding the government projects and not relying on sub contract works. SVSMC at present has a healthy order book position of Rs.320.89 Cr, which is expected to be executed in the next 2-3 years; which provides adequate revenue visibility in the medium term. Acuité believes that the promoter's extensive industry experience will aid SVSMC's business risk profile over the medium term.

- **Improving scale of operations and sustainable profitability margins**

The revenue of SVSMC is improving Y-o-Y with a CAGR of 18.17 percent for the last three years ending FY2020. The revenue improved from Rs.70.12 Cr in FY2018 to Rs.80.73 Cr in FY2019 and Rs.97.91 Cr in FY2020 (Provisional). SVSMC has generated revenue of Rs.40.76 Cr for 8M of FY2021 vis-à-vis Rs.60.28 Cr of revenue achieved by the company for the same period in the previous year FY2020. The outbreak of COVID-19 resulted in lower construction activities in the period April-July of 2020.

The management of SVSMC is conscious about profitability margins and undertakes majorly central government funded higher margin orders. This is evident from the profitability margins of the company over the last three years which ranged between 14.20-16.50 percent.

Acuité believes that the revenue is expected to show a marginal dip in FY2021 due to lower construction activity during the initial months of the onset of Covid-19 and EBITDA margins is sustainable over the medium term.

- **Moderate financial risk profile**

The financial risk profile of the company remained moderate with moderate capital structure and debt protection metrics. SVSMC's net worth stood at Rs.28.91 Cr on March 31, 2020 (Provisional) as against Rs.23.65 Cr as on March 31, 2019. The networth improved on account of increase in PAT levels coupled with decrease in interest expense and depreciation charges when compared to previous year and improvement in revenues. This also led to improvement in EBIDTA which led the interest coverage ratio improve from 2.60 times in FY2019 to 3.46 times for FY2020 (Provisional). Debt to Equity (Gearing) improved from 2.07 times as on March 31, 2019 to 1.37 times as on March 31, 2020 (Provisional) on account of decline in total debt levels and improved net worth. Debt Service Coverage Ratio (DSCR) and Net Cash Accruals to Total Debt (NCA/TD) stood at 3.01 times and 0.22 times as on March 31, 2020 (Provisional) and 2.60 times and 0.15 times as on March 31, 2019 respectively. Total outside Liabilities to tangible net worth (TOL/TNW) improved from 2.99 times as on March 31, 2019 to 1.97 times as on March 31, 2020 (Provisional). Acuité believes that the financial risk profile of the company is expected to remain moderate over the medium term on account of moderate cash accruals and no significant debt-funded capex plans.

Weaknesses

- **Tender based nature of operations and significant geographical concentration risk**

SVSMC executes majorly tender based projects from government with no reliance on sub-contract work. Once the tender is allotted, EMD of 0.5-1 per cent is deposited along with performance guarantee of ~5-7 per cent. The company raises bills on a monthly basis. The retention money is usually 5-10 per cent of the contract value, which is released after a defect liability period of 6 month to 1 year or more. Since the nature of operations is tender based, the business depends on the ability to bid for contracts successfully. SVSMC has a success rate of 70 to 80 percent in bidding. SVSMC's revenue and profitability are susceptible to risks inherent in contract based operations. Also, Tender based operations limit pricing flexibility in an intensely competitive industry. SVSMC has executed projects in AP, Odisha and Karnataka in the past. Its' present unexecuted order book too is significantly concentrated in the aforesaid mentioned states. Out of the total outstanding orders of Rs.320.89 crores as on March 31, 2020, 83 percent of orders are from AP, 16 percent from Odisha and 11 percent from Karnataka; thereby depicting significant geographical concentration in revenue profile.

- **Moderate working capital management**

SVSMC's working capital cycle improved and remained moderate with Gross Current Assets (GCA) days at 140 days as on March 31, 2020 (Provisional) as against 216 days as on March 31, 2019. This is on account of improving inventory days from 178 days as on March 31, 2019 to 80 days as on March 31, 2020 (Provisional). The GCA days also include the other current asset portion in the form of security deposits, retention money and EMD. These are partially offset by high creditor days. It pays the RM creditors within 10-45 days; however certain portion pertain to expenses payable to sub-contractors leading to high creditor days on aggregate basis. The high GCA cycle has led to high utilization of limits in the range of 95-100 percent of bank lines of Rs.12.50 crores over the past 6 months ending November, 2020. Acuité believes that the operations of the SVSMC will remain moderately working capital intensive in the medium term too.

Rating Sensitivity factors

- Any further deterioration in working capital management leading to deterioration in financials risk profile and liquidity
- Lower-than-expected revenue or profitability leading to lower net cash accruals

Material Covenants: None

Liquidity Position: Adequate

SVSMC has adequate liquidity marked by modest net cash accruals as compared to its maturing debt obligations. SVSMC generated net cash accruals of Rs.8.86 Cr for FY2020 (Provisional) vis-à-vis maturing debt obligations of Rs.2.80 Cr over the same period. The cash accruals are estimated to be around Rs.7.00-11.50 Cr during FY2021-23 vis-à-vis repayment obligations in the range of Rs.2.80 Cr to Rs.3.50 Cr. SVSMC maintained unencumbered cash and bank balances of Rs.0.46 Cr as on March 31, 2020 (Provisional). The current ratio stood modest at 1.29 times as on March 31, 2020 (Provisional). The working capital limits of the company remained fully utilized for the last six months ended November, 2020. Acuité believes that the liquidity of the company's liquidity is likely to remain adequate over the medium term.

Outlook: Stable

Acuité believes that SVSMC 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 SVSMC registers lower-than-expected decline in revenues and profitability or any significant stretch in its working capital management leading to the deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	97.91	80.73
PAT	Rs. Cr.	5.26	2.39
PAT Margin	(%)	5.37	2.96
Total Debt/Tangible Net Worth	Times	1.37	2.07
PBDIT/Interest	Times	3.46	2.60

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

India Ratings and Research, vide its press release dated June 19, 2019 had denoted the rating of SVS Mookambika Constructions Private Limited as 'IND D; ISSUER NOT COOPERATING' on account of lack of adequate information required for monitoring of ratings. The earlier rating, however, stood at 'IND BB+/Stable' vide its press release dated April 03, 2018.

ICRA, vide its press release dated January 15, 2020 had denoted the rating of SVS Mookambika Constructions Private Limited as 'ICRA B+/A4; ISSUER NOT COOPERATING' on account of lack of adequate information required for monitoring of ratings. The earlier rating, however, stood at 'IND BB-/Stable/A4' vide its press release dated January 10, 2017.

Any other information

None

Applicable Criteria

- Default Recognition – <https://www.acuite.in/view-rating-criteria-52.htm>
- Infrastructure Entities - <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 (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	12.50	ACUITE BB/ Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	9.00	ACUITE A4+ (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	14.00	ACUITE A4+ (Assigned)
Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A4+ (Assigned)

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President Tel: 022-49294041 aditya.gupta@acuite.in Nagidi Bhavani Analyst - Rating Operations Tel: 040-40042327 nagidi.bhavani@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and 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. Since then, it has assigned more than 8,446 credit 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 Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité, Acuité's rating scale and its definitions.