

Press Release

SVS Mookambika Constructions Private Limited

June 30, 2022



Rating Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	15.50	ACUITE BBB- Stable Upgraded	-
Bank Loan Ratings	35.00	-	ACUITE A3 Upgraded
Total Outstanding Quantum (Rs. Cr)	50.50	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has upgraded its long-term rating from '**ACUITE BB+**' (read as **ACUITE double B plus**) to '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and the short-term rating from '**ACUITE A4+**' (read as **ACUITE A four plus**) to '**ACUITE A3**' (read as **ACUITE three**) on the Rs.50.50 Cr. bank facilities of SVS MOOKAMBIKA CONSTRUCTIONS PRIVATE LIMITED (SVSMC). The outlook is '**Stable**'.

The ratings upgrade is on account of its healthy yet improving order book providing strong revenue visibility over the next 12-24 months of time. Timely execution of the orderbook has led to growth of 35.12 percent in total operating income in FY2022 (Prov.) at Rs.121.65Cr from Rs.90.03 Cr in FY2021. Moreover, the upgrade reflects the capability of the company to execute and bill higher work given the limited dependence on the working capital limits. SVSMC had achieved Rs.75.80 Cr until 9MFY2022 and was able to achieve additional Rs.45.85 Cr in Q4FY2022. Additionally, management's strategy and ability to diversify its order book and reduce customer concentration risk has aided the business risk profile. SVSMC's orderbook as on March 31, 2022 consists of 76.2 percent from AP, 19.1 percent from Karnataka (mainly for National Highway of India; NHAI) and balance from Odisha vis-à-vis 96.8 percent from AP and 3.2 percent from Odisha until March 31, 2021. The continued strategy to diversify further is reflected through its expected tenders worth Rs.180.32 Cr in the Karnataka region for NHAI ensuing better receivable cycle. Liquidity continues to remain adequate; enhancement in working capital limits will remain key monitorable.

The rating also takes into account its established track record of operations with experienced promoter and adequate liquidity, thereby providing sufficient cushion against debt repayment. The above ratings are, however underpinned by tender based nature of operations and working capital intensive nature of operations.

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.

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.514.05 Cr, which is expected to be executed in the next 1-2 years; which provides adequate revenue visibility in the medium term. Also Apart from the above order book, the company has submitted tenders for project worth Rs.414.00 Cr. The tender process for these have recently completed here Acuité believes that the promoter's extensive industry experience will aid SVSMC's business risk profile over the medium term.

- **Improving scale of operations**

SVSMC's scale of operations has been improving over the period ending FY2022 (except for FY2021). The revenues stood at Rs.121.65 Cr in FY2022 (Prov.), Rs.90.03 in FY2021. The improvement in revenues is on account of continuous execution of its healthy order book. Profitability margins have remained range bound i.e. EBITDA margin from 14.81 percent in FY2021 to 14.36 percent in FY2022 (Prov). Whereas Net Profit margin seen an increased trend from 4.20 percent in FY2021 to 4.57 percent in FY2022 (Prov). Acuité believes that the revenue is expected to improve backed by its healthy order book position and profitability margins are expected to remain stable 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 has moderate net worth of Rs.36.40 Cr as on March 31, 2022 (Prov) against Rs.30.92 Cr as on previous year end. Company has generated EBITDA of Rs.14.36 cr as on March 31, 2022 (Prov). The interest coverage ratio remain moderate at 4.87 as on March 31, 2022 (Prov) against 3.05 as on March 31, 2021. Debt to Equity (Gearing) stood at 1.32 times as on March 31, 2022(Prov). Debt Service Coverage Ratio (DSCR) and Net Cash Accruals to Total Debt (NCA/TD) stood at 4.28 times and 0.25 times as on March 31, 2022 (Prov) and 2.69 times and 0.68 times as on March 31, 2021, respectively. Total outside Liabilities to tangible net worth (TOL/TNW)

stood at 2.17 times as on March 31, 2022 (Prov). 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.

- **Geographical & customer concentration risk mitigated with attempt to diversify to Karnataka for NHAI**

SVSMC has shown significant diversification in its order book and revenue in the last 6 months of time. It shows an attempt to diversify in Karnataka that too for a better counterparty like NHAI which shall ensure quick receivables in near to medium term. Notably, SVSMC has executed orders in Karnataka in past also. Out of the total outstanding orders of Rs.514.05 Cr as on March 31, 2021, 76.2 percent of orders are from AP, 19.1 percent from Karnataka and 4.9 percent from Odisha. These tenders are for funded projects with counterparty being majorly NHAI and others. Acuité believes that SVSMC is likely to win majority of the order given its strike rate of 50-60 percent.

Weaknesses

- **Tender based nature of operations**

SVSMC executes majorly tender based projects from government with no reliance on subcontract 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 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 success rate of 50 to 60 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.

- **Moderate working capital management**

SVSMC's working capital management of the company is moderately intensive marked by Gross Current Assets (GCA) of 266 days as on March 31, 2022 (Prov.) as against 204 days as on March 31, 2021. Inventory days stood at 143 days as on March 31, 2022(Prov) as against 93 days as on March 31, 2021. Subsequently, the payable period stood at 321 days as on March 31, 2022 (Prov.) as against 114 days as on March 31, 2021 respectively. 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 debtor day stood at 91 days as on March 31, 2022 (Prov.) as against 61 days as on March 31, 2021. The increase in GCA days has been a year end phenomenon as high amount of bills have been raised worth Rs.32.50 Cr in the month of March 2022 of which only Rs.18.4 Cr have been received which led to higher year end receivables. These bills have been subsequently realized and received in the following month – April 2022. Moreover, high amount of raw materials were purchased to execute the newer orders of NHAI plus existing orders along with unbilled revenue (seen in higher WIP of Rs.19.87 Cr) has led to relatively higher Inventory days as on March 31, 2022. This led to higher creditors too in the year end. Further, the average bank limit utilization in the last twelve months ended May, 22 remained at ~91 percent for fund based and 66 percent for non- fund based. Acuité believes that the working capital requirements will continue to remain moderately intensive over the medium term on account of slightly high GCA days.

Rating Sensitivities

Positive

- Higher-than-expected Improvement in the scale of operations and profitability as envisaged
- Sustainable improvement in Leverage and Solvency position of the company.
- Sustainable improvement in Gross current assets (GCA) days.

Negative

- Any large debt-funded capital expenditure, which may adversely impact its capital structure and liquidity
- Any further deterioration in working capital management leading to deterioration in financials risk profile

Material covenants

None

Liquidity Position: Adequate

SVSMC has generated adequate net cash accruals to service its debt obligations. The net cash accruals stood at Rs.11.99 Cr in FY2022 as against the repayment of Rs.2.65 Cr for the same period and expected to generate cash accruals in the range of Rs.15-20 Cr. against CPLTD of Rs.2- 4.01 Cr. over the medium term. Unencumbered cash and bank balances stood at Rs. 0.51 Cr as on March 31, 2022(Prov). The current ratio of the company stood at 1.56 times as on 31 March, 2022 (Prov). Acuite believes that SVSMC's liquidity will remain sufficient over the medium term backed by repayment of its debt obligations and improving accruals.

Outlook: Stable

Acuite 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 revenues and profitability or any significant stretch in its working capital management, leading to the deterioration of its financial risk profile and liquidity.

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	121.65	90.03
PAT	Rs. Cr.	5.56	3.78
PAT Margin	(%)	4.57	4.20
Total Debt/Tangible Net Worth	Times	1.32	0.90
PBDIT/Interest	Times	4.87	3.05

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
25 Jan 2022	Cash Credit	Long Term	12.50	ACUITE BB+ Stable (Upgraded from ACUITE BB Stable)
	Proposed Bank Guarantee	Short Term	9.00	ACUITE A4+ (Reaffirmed)
	Bank Guarantee	Short Term	9.00	ACUITE A4+ (Reaffirmed)
	Bank Guarantee	Short Term	17.00	ACUITE A4+ (Reaffirmed)
	Cash Credit	Long Term	3.00	ACUITE BB+ Stable (Upgraded from ACUITE BB Stable)
24 Dec 2020	Proposed Bank Guarantee	Short Term	15.00	ACUITE A4+ (Assigned)
	Bank Guarantee	Short Term	9.00	ACUITE A4+ (Assigned)
	Bank Guarantee	Short Term	14.00	ACUITE A4+ (Assigned)
	Cash Credit	Long Term	12.50	ACUITE BB Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	9.00	ACUITE A3 Upgraded (from ACUITE A4+)
Kotak Mahindra Bank	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	17.00	ACUITE A3 Upgraded (from ACUITE A4+)
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	12.50	ACUITE BBB- Stable Upgraded (from ACUITE BB+)
Kotak Mahindra Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE BBB- Stable Upgraded (from ACUITE BB+)
Not Applicable	Not Applicable	Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	9.00	ACUITE A3 Upgraded (from ACUITE A4+)

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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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