

Press Release

Srinivasa Edifice Private Limited

May 18, 2021

Rating Assigned



Total Bank Facilities Rated*	Rs.150.00 Cr.
Long Term Rating	ACUITE BBB- / Stable (Assigned)
Short Term Rating	ACUITE A3 (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned its long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and short term rating of '**ACUITE A3**' (read as **ACUITE A three**) on the Rs.150.00 Cr. bank facilities of Srinivasa Edifice Private Limited (SEPL). The outlook is '**Stable**'.

About the company

Vijayawada based, Srinivasa Edifice Private Limited (SEPL) was incorporated in the year 1984 by Mr. Venkata Krishna Mohan Yelamanchi, who is the managing director of the company and possess more than 3 decades of experience in civil construction works. The day to day operations of the company are managed by his son Mr. Yelamanchi Venkata Man Mohan. The company is engaged in supplying of ballasts to Indian railways and also engaged in road and rail contract works. The company is involved in execution of contract works for government departments such as Roads & Buildings department (R&B), irrigation department of Andhra Pradesh, Panchayat Raj, municipal corporations, Rail Vikas Nigam Limited, Ministry of Road Transport & Highways (MORTH), National Highway Authority of India (NHAI).

The rating assigned to the bank facilities of SEPL 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 moderate working capital management, competitive and fragmented in and susceptibility of revenues and profitability to tender based nature of operations.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of SEPL 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**

SEPL is promoted by Mr. Venkata Krishna Mohan Yelamanchi, who has more than 3 decades of experience in civil construction business. SEPL is a special class contractor and undertakes civil construction activities primarily engaged in supplying of ballast to Indian railways and road and rail contract works. The company is involved in execution of contract works for government departments such as Roads & Buildings (R&B) department, irrigation department of Andhra Pradesh, Panchayat Raj, municipal corporations, Rail Vikas Nigam Limited, Ministry of Road Transport & Highways (MORTH), National Highway Authority of India (NHAI). Promoters' extensive experience and established track record of operations and past track record of completion of projects has helped the company in bidding and awarding the government projects. SEPL has an unexecuted order book position of Rs.617.81 Cr as on March 31, 2021 which is expected to be executed in the next 2-3 years; which provides adequate revenue visibility in the medium term. To add, the company has orders worth Rs.609.66 Cr in pipeline under tendering stage. The company is expected to benefit from healthy demand prospectus of the industry. As per the National Infrastructure Pipeline policy, it is estimated that India would need to spend \$4.5 trillion on infrastructure by 2030 to realise the vision of a \$5 trillion economy by 2025, and to continue on an escalated trajectory until 2030. Acuité

believes that the promoter's extensive industry experience will aid SEPL's business risk profile over the medium term.

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

The scale of operations of the company has been improving over the period from FY2018-2020. The revenues stood at Rs.165.27 Cr in FY2018, Rs.247.88 in FY2019 and Rs.249.58 Cr in FY2020. Further, in FY2021, the revenues were marginally lower at Rs.210.25 Cr (Provisional) on account of focus on a favorable revenue mix by concentrating more on its core high margin business of supplying ballasts and lower sub-contracting work. The improvement in revenues is on account of execution of higher orders received post significant capex done in the last two financial years to meet the eligibility criteria of such tenders. This in turn has brought down the hire charges of the company and improved the profitability margins. The profitability margins stood at 8.21 percent in FY2018, 8.69 percent in FY2019 and 12.92 percent in FY2020. Acuite 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.

- **Geographic diversification and favorable revenue mix**

SEPL has stone quarries spread over 110 hectares of land situated mostly in Andhra Pradesh and parts of Telangana. This is taken on lease for 25 years. The company is based in Vijayawada and managing 15 depots across east coast line from Nellore to Kharagpur. The ballast size supplied is of 50 mm stone. While crushing and segregating this 50 mm stone, materials such as small stones and dust particles also come in this process. Earlier, this was sold to other contractors engaged in building construction, RMC player and others. Later, the company sighting this as an opportunity of backward integration, forayed into roads contracts as well. SEPL; being a vintage player; few other companies enter into joint venture with SEPL to quote the high value orders. The company charges commission of 4 to 5 percent for joint venture works. The company also executes the state government projects related to road contracts. SEPL operates in the states of Andhra Pradesh, Telangana, Orissa, Bihar and West Bengal, which provides geographic diversification in terms of order book and revenue profile. SEPL's operations are well diversified, which caters to various segments related to civil works and infrastructure construction activities. Out of the total revenues, 40-50 percent of revenue generation caters to supplying of ballast to India railways, around 20 percent to rail and road projects, 20 percent related to sub contract works given in joint venture projects. Around 10-15 percent in supply of stone metal to other infra companies. Moreover, company's has a favourable revenue mix with high margin segment (ballast) has been contributing significantly vis-à-vis other segments earlier. Acuite believes that geographic and revenue diversification of SEPL will remain a key strength factor and improve their operations in near to medium term.

- **Moderate financial risk profile**

The financial risk profile of the company has remained moderate with moderate capital structure and debt protection metrics. The networth of the company stood at Rs.34.73 Cr and Rs.41.55 Cr as on March 31, 2019 and 2020 respectively. The gearing stood at 0.64 times as on March 31, 2018 and deteriorated to 1.76 times as on March 31, 2019. This is on account of increase in term loans w.r.t machinery and equipment loans. Later, gearing has improved to 1.47 times as on March 31, 2020, The gearing improved in FY2020 due to decrease in long term debt and increase in networth levels. Debt protection metrics – Interest coverage ratio and debt service coverage ratio stood at 3.72 times and 2.51 times as on March 31, 2020 respectively as against 4.55 times and 3.90 times as on March 31, 2019 respectively. The decline in debt protection metrics is on account of increase in interest expense. TOL/TNW stood at 2.94 times and 3.23 times as on March 31, 2020 and 2019 respectively.

Acuite 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 Competitive and fragmented industry**

SEPL participates in tenders w.r.t work related to Indian Railways. No Earnest Money Deposit (EMD) or Bank Guarantee (BG) to be submitted while quoting the tender. Once the tender is awarded, 1 percent of the performance guarantee is to be submitted. After allocating the work to the company, it is eligible for 5 percent mobilization advance and 5 percent machinery advance. In ballast segment supply, a depo will be called for a tender for 3 to 4 years for supplying of 3 lakh cubic metres of ballast supply. After raising the bill, the company receives payment in a week after deducting 5 percent as retention money, this is to ensure that the party will be supplying the tender quantity over the remaining period of time. This retention money is released at the time of last bill raised. Whereas for the road and railway works; 7.50 percent is held

by the authority. 5 percent is released at the time of last bill and 2.50 percent after the defective liability period. The company is engaged as a civil contractor. The particular sector is marked by the presence of several mid to big size players. The company faces competition from the other players in the sectors. Risk becomes more pronounced as tendering is based on a minimum amount of bidding of contracts. However, this risk is mitigated to an extent as the promoter has been operating in this industry for the last 3 decades.

• Moderate working capital management

The working capital management of the company remained moderate with moderate GCA days at 124 days as on March 31, 2020 as against 90 days as on March 31, 2019. The increase in GCA days is on account of increase in debtor days. The debtor days stood at 57 days and 39 days as on March 31, 2020 and 2019 respectively. This is on account of delay in receivables in March month on account of Covid-19 impact. The inventory days stood at 37 days as on March 31, 2020 as against 22 days as on March 31, 2019. The working capital limits of the company remained utilized at 88 percent for the last six months ended March 31, 2021. Acuite believes that the operations of the SEPL will remain moderate 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

SEPL has adequate liquidity marked by adequate net cash accruals as compared to its maturing debt obligations. SEPL generated net cash accruals of Rs.20.48 Cr for FY2020 vis-à-vis maturing debt obligations of Rs.2.84 Cr over the same period. The cash accruals are estimated to be around Rs.18.00-32.00Cr during FY2021-23 vis-à-vis repayment obligations in the range of Rs.12.94 Cr to Rs.10.14 Cr. SEPL maintained unencumbered cash and bank balances of Rs.2.68 Cr as on March 31, 2020. The current ratio stood modest at 1.03 times as on March 31, 2020. The working capital limits of the company remained 88 utilized for the last six months ended March, 2021. Acuite believes that the company's liquidity is expected to remain adequate over the medium term.

Outlook: Stable

Acuite believes that SEPL 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 SEPL 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 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	249.58	247.88
PAT	Rs. Cr.	6.81	6.95
PAT Margin	(%)	2.73	2.80
Total Debt/Tangible Net Worth	Times	1.47	1.76
PBDIT/Interest	Times	3.72	4.55

FY2021 (Provisional) figures:

	Unit	FY21 (Provisional)
Operating Income	Rs. Cr.	210.25
PAT	Rs. Cr.	5.94
PAT Margin	(%)	2.82
Total Debt/Tangible Net Worth	Times	0.94
PBDIT/Interest	Times	4.12

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 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	14.00	ACUITE BBB-/ Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE A3 (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	7.75	ACUITE A3 (Assigned)
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE BBB-/ Stable (Assigned)
Proposed	Not Applicable	Not Applicable	Not Applicable	78.25	ACUITE A3 (Assigned)

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About Acuité Ratings & Research:

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