

Press Release

Srinivasa Edifice Private Limited

June 23, 2022



Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	116.00	-	ACUITE A3 Reaffirmed
Bank Loan Ratings	34.00	ACUITE BBB- Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	150.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed 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**'.

The rating reaffirmation takes into account its long track record of operations, experienced management and adequate liquidity position marked by adequate cash accruals against repayment obligations. The rating, however, remain constrained on account of moderate working capital intensive operations and susceptibility of revenues and profitability to tender based nature of operations.

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

Acuite 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.787 Cr as on March 31, 2022 which is expected to be executed in the next 1-2 years; which provides adequate revenue visibility in the medium term. To add, the company has orders worth Rs.490 Cr in pipeline under tendering stage. Acuité believes that the promoter's extensive industry experience will aid SEPL's business risk profile over the medium term.

- **Consistent Operational performance**

SEPL's scale of operations have remained consistent. Although, the revenue was lower than Acuité's estimates due to lower billing from state government orders; it reported Y-o-Y growth of 4.75 percent in its total operating income of Rs.214.42 Cr in FY2022 (Prov.) vis-à-vis Rs.204.69 Cr in FY2021. The improvement in revenues is on account of favourable order mix with higher exposure towards supply of ballasts and significant capex done in the last 2 financial years ending FY2021 to execute such orders. This in turn has brought down the hire charges of the company and improved the profitability margins. However, profitability margin has marginally declined in FY2022 i.e. EBITDA margin declined from 12.3 percent in FY2021 to 12 percent in FY2022 (Prov.); the deterioration in the EBITDA margins is on account of increase in fuel cost for the supply of ballast from depots to customers. Whereas, Net profit margin increased from 1.79 percent in FY2021 to 3.02 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.

- **Geographic diversification Favorable revenue mix over the years**

The company executes the central/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 in FY2022, Supplying of ballast to railways – constitutes around 48.04 percent of the revenue, Works Contracts & Sub-Contract Turnover around 36.24 percent of the revenue and Supply of stone crush to other infra projects – constitutes around 19.31 percent. Moreover, company's has a favourable revenue mix with high margin segment (ballast) which has been contributing significantly vis-à-vis other segments. Acuité 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 net worth of the company stood at Rs.51.67 Cr and Rs.45.20 Cr as on March 31, 2022(Prov.) and 2021 respectively. The gearing of the company has been improving over the last 2 years ending March 31, 2022 (Prov.) due to decrease in long term debt and increase in net worth levels. It stood at 0.83 times as on March 31, 2022 (Prov.) against 1.22 times as on March 31, 2021. Debt protection metrics – Interest coverage ratio and debt service coverage ratio stood at 3.42 times and 1.15 times as on March 31, 2022 (Prov.), respectively as against 2.93 times and 1.11 times as on March 31, 2021, respectively. The marginal deterioration in debt protection metrics is on account of increase in interest expense. TOL/TNW stood at 1.39 times and 1.88 times as on March 31, 2022 (Prov.) and 2021, respectively. The debt to EBITDA of the company stood at 1.53 times as on 31 March, 2022(Prov.) as against 2.17 times as on 31st March, 2021. 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 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 Gross current asset (GCA) days at 114 days as on March 31, 2022 (Prov.) as against 114 days as on March 31, 2021. Inventory days stood at 13 days as on 31st March, 2022 (Prov) as against 26 days as on 31 March, 2021. Subsequently, the payable period stood at 129 days as on 31 March, 2022(Prov.) as against 152 days as on 31 March, 2021 respectively. The debtor day stood at 69 days as on 31 March, 2022(Prov.) as against 62 days as on 31 March, 2021. Further, the average bank limit utilization in the last 12 months ended May, 2022 remained at ~77 percent for fund based and 71 percent for non-fund based. Acuité believes that the operations of the SEPL will remain moderate in the medium term too.

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 group.
- Sustainable improvement in Gross current assets (GCA) days.

Negative

- Any deterioration in working capital cycle and liquidity profile of the company.
- Any deterioration in Revenue profile and leverage position of the company
- Anyweakening of financial risk profile of the company

Material covenants

None

Liquidity Position: Adequate

The company has generated adequate net cash accruals to service its debt obligations. The net cash accruals stood at Rs.15.94 Cr in FY2022(Prov.) as against the repayment of Rs.11.14 Cr for the same period and expected to generate cash accruals in the range of Rs.22-40 Cr. against CPLTD of Rs.7- 10 Cr. over the medium term. Unencumbered cash and bank balances stood at Rs. 1.87 Cr as on March 31, 2022(Prov). The current ratio of the company stood at 1.24 times as on 31 March, 2022(Prov). Acuité believes that SEPL liquidity will remain sufficient over the medium term backed by repayment of its debt obligations and improving accruals.

Outlook: Stable

Acuité 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.

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	214.42	204.69
PAT	Rs. Cr.	6.47	3.66
PAT Margin	(%)	3.02	1.79
Total Debt/Tangible Net Worth	Times	0.83	1.22
PBDIT/Interest	Times	3.42	2.93

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
18 May 2021	Cash Credit	Long Term	14.00	ACUITE BBB- Stable (Assigned)
	Proposed Cash Credit	Long Term	20.00	ACUITE BBB- Stable (Assigned)
	Bank Guarantee	Short Term	30.00	ACUITE A3 (Assigned)
	Bank Guarantee	Short Term	7.75	ACUITE A3 (Assigned)
	Proposed Bank Facility	Short Term	78.25	ACUITE A3 (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Union Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE A3 Reaffirmed
Kotak Mahindra Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	7.75	ACUITE A3 Reaffirmed
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	14.00	ACUITE BBB- Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE BBB- Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	78.25	ACUITE A3 Reaffirmed

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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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