

Press Release

Sai Pavani Constructions India Private Limited

July 02, 2021



Rating Assigned

Total Bank Facilities Rated*	Rs.75.00 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.75.00 Cr. bank facilities of Sai Pavani Constructions India Private Limited (SPCPL). The outlook is '**Stable**'.

About the company

Hyderabad-based, Sai Pavani Constructions India Private Limited (SPCPL) was established as a proprietorship in 1990 by Mr. Duggi Reddy and later reconstituted to private limited company in the year 2006. The company undertakes civil construction activities primarily of Roads, Irrigation works, Buildings, Bridges, Drains and such other allied activities. The company is registered as a 'Special Class' contractor for the state of Andhra Pradesh and Telangana state governments and is registered as a 'Class-I' contractor for Karnataka state government.

The rating assigned to the bank facilities of SPCPL factors in its established track record of operations, experienced management, improving scale of operations, moderate 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 SPCPL 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**

SPCPL is promoted by Mr. Duggi Reddy, who has more than 3 decades of experience in civil construction business. SPCPL is registered as a 'Special Class' contractor for the state of Andhra Pradesh and Telangana state governments and is registered as a 'Class-I' contractor for Karnataka state government. 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 especially, SPCPL being one of the major contractor for the prestigious project of Telangana Government i.e., Yadagirigutta Narasimha Swamy Temple — now Yadadri. The company has an unexecuted order book position of Rs.660.50 Cr as on March 31, 2021 which is 7.48 times of FY2020 revenue and 2.96 times of FY2021 revenue on provisional basis. This provides strong revenue visibility for the next 2-3 years. Out of the aforementioned order book, the company is planning to execute Rs.264 Cr in FY2022 and remaining in FY2023 & FY2024. While most of the projects are from Government of Telangana, Andhra Pradesh, and Karnataka, the company ensures that it bids and executes only funded projects. To add, SPCPL, also has tendered and expected work orders worth Rs.375 Cr in pipeline. Acuité believes that the promoter's extensive industry experience will aid SPCPL's business risk profile over the medium term.

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

The scale of operations of the company has been improving over the period albeit sudden dip in FY2020. The revenues stood at Rs.128.11 Cr in FY2019, Rs.88.25 Cr in FY2020 and Rs.223.14 Cr in FY2021 (Provisional). The dip in revenues in FY2020 is due to delayed realization of the receivables from the temple project due to political dispensation.. The revenue shortfall in FY2020 was witnessed well by the whopping jump in FY2021 revenue wherein the delayed receivables were realized. The revenue of ~Rs.40 Cr was spilled over to FY2021 due to this delay. The profitability margins stood at 14.52 percent in FY2019, 14.36 percent in FY2020 and 9.10 percent in FY2021 (Provisional). Further, the company has achieved revenue of Rs.21 Cr till May 2021. Acuité believes that the revenue is expected to improve backed by its healthy order book position and profitability margins are expected to remain satisfactory over the 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.32.45 Cr and Rs.24.73 Cr as on March 31, 2021 (Provisional) and 2020 respectively. The gearing stood at 1.12 times as on March 31, 2021 (Provisional) and 1.68 times as on March 31, 2020. This is on account of decline in debt levels. Debt protection metrics – Interest coverage ratio and debt service coverage ratio stood at 3.84 times and 2.89 times as on March 31, 2021 (Provisional) respectively as against 3.20 times and 1.58 times as on March 31, 2020 respectively. Debt protection metrics improved on account of increase in EBITDA in absolute terms on account of significant improvement in revenues. TOL/TNW stood at 3.05 times and 3.99 times as on March 31, 2021 (Provisional) and 2020 respectively.

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**

SPCPL executes majorly tender-based projects from state government. Once the tender is allotted, EMD of ~1-2.5 per cent is deposited along with the performance guarantee. The company raises bills on monthly basis and the payment is received in 30-45 days. The retention money is usually 5-10 per cent of the contract value which is released after a defect liability period of 2-3 years. Since, the nature of operations is tender based, the business depends on the ability to bid for contracts successfully. SPCPL'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. 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 and geographical diversification.

- **Moderate working capital management**

The working capital management of the company remained moderate with moderate GCA days at 163 days as on March 31, 2021 (Provisional) as against 395 days as on March 31, 2020. The improved GCA days are on account of improvement in debtor days and inventory days. In FY2020, there was delay in receivables from the Government for the temple project.. Due to delay in receivables the company couldn't raise the bills and slowed down their work execution, which led to increase in inventory levels too. On the other hand, in order to meet the working capital requirements the company has taken leverage on its creditors. The creditor days stood at 149 days and 923 days as on March 31, 2021 (Provisional) and 2020, respectively. The working capital limits of the company remained utilized at ~90 percent for the last six months ended May 31, 2021. Acuité believes that the operations of the SPCPL 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

SPCPL has adequate liquidity marked by adequate net cash accruals as compared to its maturing debt obligations. SPCPL generated net cash accruals of Rs.13.81 Cr for FY2021 (Provisional) vis-à-vis maturing debt obligations of Rs.1.25 Cr over the same period. The cash accruals are estimated to be around Rs.21.00-31.00 Cr during FY2022-24 vis-à-vis repayment obligations in the range of Rs.2.00 Cr to Rs.1.80 Cr. SPCPL maintained unencumbered cash and bank balances of Rs.1.31 Cr as on March 31, 2021 (Provisional). The current ratio stood modest at 1.56 times as on March 31, 2021 (Provisional). The working capital limits of the company remained 90 utilized for the last six months ended May, 2021. Acuité believes that the company's liquidity is expected to remain adequate over the medium term.

Outlook: Stable

Acuité believes that SPCPL 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 SPCPL 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	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	223.14	88.25
PAT	Rs. Cr.	7.73	2.64
PAT Margin (%)	(%)	3.46	2.99
Total Debt/Tangible Net Worth	Times	1.12	1.68
PBDIT/Interest	Times	3.84	3.20

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
Over Draft	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB-/ Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A3 (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB-/ Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A3 (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB-/ Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE A3 (Assigned)

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About Acuité Ratings & Research:

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