

Press Release

Sai Pavani Constructions India Private Limited

September 30, 2022



Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	15.00	-	ACUITE A3 Assigned
Bank Loan Ratings	20.00	ACUITE BBB- Negative Assigned	-
Bank Loan Ratings	25.00	ACUITE BBB- Negative Reaffirmed Stable to Negative	-
Bank Loan Ratings	50.00	-	ACUITE A3 Reaffirmed
Total Outstanding Quantum (Rs. Cr)	110.00	-	-
Total Withdrawn Quantum (Rs.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 its short term rating of '**ACUITE A3**' (read as **ACUITE A three**) on the Rs. 75.00 Cr. bank facilities of SAIPAVANI CONSTRUCTIONS INDIA PRIVATE LIMITED (SPCPL). The outlook has been revised from 'Stable' to 'Negative'.

Also, Acuite has assigned its long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and its short term rating of '**ACUITE A3**' (read as **ACUITE A three**) on the Rs.35.00 Cr. bank facilities of SPCPL. The outlook is 'Negative'.

The revision in outlook reflects the deterioration in leverage ratios due to high dependency on external borrowings due to its high working capital intensity. Acuite believes that the incremental working capital requirements are likely to remain high over the near to medium term. However, the rating favorably factors in the long track record of operations and experienced management which is also reflected through substantial increase in operating income in FY 2022. Further, the company has an unexecuted order book position of Rs.885.90 Cr as on June 30, 2022 which provides revenue visibility over medium term.

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.

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.885.90 Cr as on June 30, 2022 which is 3.24 times of FY2022 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.600-700 Cr in next two years. 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. Acuité believes that the promoter's extensive industry experience will aid SPCPL's business risk profile over the medium term.

- **Improvement in operations and healthy order book**

SPCPL's scale of operations is moderate, with revenue improving from Rs.88.25 Cr in FY2020 to 273.63 Cr in FY2022(Prov.) along with sustained operating margin of ~12 to 13 percent across all years. The revenue growth is on account of continuous execution of its order book while improvement in margins is attributable to a comparatively lower sub-contracting and focus on government funded high-margin yielding orders. The company having an unexecuted order book position of Rs.885.90 Cr as on March 31, 2022. The company is planning to execute around Rs.600-700 Cr in FY2023-FY2025. The outstanding order book is 3.24x of the FY2022 revenue. 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.

Weaknesses

- **Moderate financial risk profile**

The company's financial risk profile is marked by a moderate net worth, gearing and moderate debt protection metrics. The net worth of the company stood at Rs.47.79 Cr and Rs.36.45 Cr as on March 31, 2022(Prov.) and 2021 respectively. The gearing of the company deteriorated and stood high at 2.23 times as on March 31, 2022(Prov.) against 0.78 times as on March 31, 2021. The deterioration in the gearing is because increase in debt portion. Debt protection metrics – Interest coverage ratio and debt service coverage ratio stood at 4.56 times and 3.31 times as on March 31, 2022(Prov.) respectively as against 3.58 times and 2.41 times as on March 31, 2021 respectively. Debt service coverage ratio(DSCR) is improved on the account of improved cash accruals. TOL/TNW (Total outside liabilities/Total net worth) stood at 5.62 times and 4.11 times as

on March 31, 2022(Prov.) and 2021 respectively. The debt to EBITDA of the company stood at 3.22 times as on 31 March, 2022(Prov.) as against 1.07 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.

- **Working capital intensive operations**

SPCPL's operations are working capital intensive operations marked by gross current assets (GCA) days at 246 days as on March 31, 2022(Prov.) as against 249 days as on March 31, 2021. Inventory days stood at 19 days as on March 31, 2022(Prov.) as against 39 days as on March 31, 2021. Subsequently, the payable period stood at 390 days as on March 31, 2022(Prov.) as against 392 days as on March 31, 2021 respectively. The debtor day stood at 68 days as on March 31, 2022(Prov.) as against 79 days as on March 31, 2021. Further, the average bank limit utilization in the last six months ended August, 2022 remained at 93 percent for fund based limits and 65 percent for non-fund based. Acuité believes that the operations of the SPCPL will remain moderate in the medium term too.

- **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.

Rating Sensitivities

- 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

The company has generated adequate net cash accruals to service its debt obligations. The net cash accruals stood at Rs.21.21 Cr in FY2022(Prov.) as against the repayment of Rs.9.11 Cr for the same period and expected to generate cash accruals in the range of Rs.26-30 Cr. against CPLTD of Rs.8- 9 Cr. over the medium term. Unencumbered cash and bank balances stood at Rs. 21.29 Cr as on March 31, 2022(Prov.). The current ratio of the company stood at 1.06 times as on 31 March, 2022(Prov.). Further, the average bank limit utilization in the last six months ended August, 2022 remained at 93 percent for fund based limits and 65 percent for non-fund based. Acuité believes that SPCPL liquidity will remain sufficient over the medium term backed by repayment of its debt obligations and improving accruals.

Outlook: Negative

Acuité has revised the outlook on SCPL to 'Negative' on account of leverage ratios are deteriorating due to higher borrowings and high creditor outstanding, high liquidity pressures and high working capital intensity. The rating may be 'downgraded' if there is higher-than-expected decline in its revenues or profitability or elongation in working capital cycle. The

outlook may be revised to 'Stable ' if the company is able to show significant improvement in liquidity profile ,leverage ratios and in working capital supported by reduction in payables days.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	273.63	226.65
PAT	Rs. Cr.	13.34	11.72
PAT Margin	(%)	4.88	5.17
Total Debt/Tangible Net Worth	Times	2.23	0.78
PBDIT/Interest	Times	4.56	3.28

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

India Ratings, vide its press release dated April 13, 2021 had reaffirmed the rating of SAIPAVANI CONSTRUCTIONS INDIA PRIVATE LIMITED to 'IND-RA B-/A4; ISSUER NOT COOPERATING'.

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
02 Jul 2021	Bank Guarantee	Short Term	5.00	ACUITE A3 (Assigned)
	Proposed Bank Facility	Long Term	5.00	ACUITE BBB- Stable (Assigned)
	Proposed Bank Facility	Short Term	25.00	ACUITE A3 (Assigned)
	Bank Guarantee	Short Term	20.00	ACUITE A3 (Assigned)
	Secured Overdraft	Long Term	10.00	ACUITE BBB- Stable (Assigned)
	Cash Credit	Long Term	10.00	ACUITE BBB- Stable (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	20.00	ACUITE A3 Reaffirmed
UCO Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A3 Reaffirmed
Indian Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A3 Assigned
UCO Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	13.00	ACUITE BBB- Negative Reaffirmed Stable to Negative
Indian Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB- Negative Assigned
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BBB- Negative Reaffirmed Stable to Negative
Not Applicable	Not Applicable	Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	6.32	ACUITE BBB- Negative Assigned
Not Applicable	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE A3 Reaffirmed
Union Bank of India	Not Applicable	Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB- Negative Reaffirmed Stable to Negative
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	3.68	ACUITE BBB- Negative Assigned

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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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