Press Release

Sri Gopikrishna Infrastructure Private Limited

October 08, 2021

Rating Assigned

Total Bank Facilities Rated*	Rs. 689.00 Cr.
Long Term Rating	ACUITE BBB-/ Outlook: 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')** to the Rs.689.00 crore bank facilities of Sri Gopikrishna Infrastructure Private Limited (SGIPL). The outlook is **'Stable'**.

The rating takes into account SGIPL's experienced promoters, established track record and healthy order book position. The rating also factors in its moderate financial risk profile and gradual customer and geographical diversification in order book. These strengths are, however, partially constrained by its elongated receivables cycle and inherent risk of susceptibility to tender based operations.

About the Company

Established in 2005-06 and based in Hyderabad (Telangana), Sri Gopikrishna Infrastructure Private Limited (SGIPL) was initially set up as partnership firm by Mr. K. Gopala Raju. In 2007-08, the firm changed its constitution to private limited company and currently is promoted by Mr. K. Gopala Raju, Mr. K V N Soma Raju and other family members. SGIPL, a family-owned business, undertakes business of engineering, supply, erection, testing & commissioning of Sub-stations and High and Low tension (LT and HT) distribution systems, undertakes underground power cabling, converts LT to HT lines amongst others. SGIPL is registered as contractor with Andhra Pradesh, Assam, Chhattisgarh, Haryana, Karnataka and Maharashtra state electricity boards.

SGIPL is backwardly integrated with a manufacturing facility at Assam and Chhattisgarh to manufacture Pre-Stressed Concrete (PSC) poles with an installed capacity of 240 poles per day per plant and manufactures poles of 7.5, 8 and 8.5 meter. SGIPL, also has Fabrication workshop with capacity of 5000 MT to manufacture hardware and matching materials.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the SGIPL to arrive at this rating.

Key Rating Drivers

Strengths

- **Promoters' extensive experience in power EPC industry; established track record of operations & healthy order book providing long term revenue visibility**

SGIPL, a registered EPC contractor, has established presence in executing projects related to power EPC for various state discoms. Mr. K Gopala Raju, the managing director of SGIPL, has more than 4 decades of experience in the line of civil construction. Mr. K V N Soma Raju, Mr. K Vijay Kumar Raju and Ms. K Neelima are other promoter directors of the company having combined experience of more than 3 decades. SGIPL is ably supported by an experienced second line of management. Initially, SGIPL worked as sub-contractor for M/s. Nagarjuna Constructions Company limited (NCC) and executed works worth Rs.230 Cr in the difficult areas of Assam. Later, from the year 2008- 09 onwards, it started taking orders as independent contractor directly from various State Discoms. Over the years, SGIPL has successfully executed various projects in the far-flung areas like Nagpur & Solapur in Maharashtra, Gulbarga & Mysore in Karnataka, Hisser & Sirsa in Haryana, Chaibasa in Jharkhand, Bemetara in Chhattisgarh, Uttar Pradesh, Bihar, Assam and West Bengal etc. With the promoters' extensive industry experience and timely execution of its past projects, SGIPL has been able to establish long-standing relationship with various discoms in different states.

As on March 31, 2021, SGIPL has an unexecuted order book position of approx. Rs.1,051.30 Cr; estimated to be executed over the next 24-36 months providing long-term revenue visibility. The outstanding order book is 5x of the FY2021 revenue. Apart from the unexecuted order book in hand, SGIPL has submitted tender for projects worth Rs.1,243.12 Cr and LOA pending for work amounts to Rs.321.03 Cr. Acuité believes that the promoters' extensive industry experience, established relation with its principal contractors and healthy order book will aid SGIPL's business risk profile over the medium term.

- **Tender based nature of operations; funded projects ensuring timely receivables**

One of the major problems faced by EPC player in power industry is payment in timely manner from its primary customers which are Discoms of various states. To overcome such hurdle, company mainly takes turnkey orders which are funded by Central Government/ international funded. SGIPL's major strength is its bidding strategy i.e. bidding for projects which are mostly funded by central government and/or international agency (i.e. REC, PFC,World Bank or Asian Development Bank) under various schemes such as Integrated Power Development Scheme (IPDS), Deen Dayal Upadhyaya Gram Jyoti Yojana (DDUGJY), Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY), Backward Region Grant Fund (BRGF) scheme, Restructured Accelerated power development and reforms programme (RAPDRP), Gotham Feeder Separation Scheme (GFSS), High Voltage Distribution System and Atal Jyothi Yojana etc. The unexecuted order book and orders in tendering stage or expected works is/are completely funded by central government schemes for which funds are allocated in budget and are maintained in separate accounts. Thus, there is lower risk of payment due to liquidity issue of State Discoms, as the funds are provided by Central Governments/International funds which means payments are technically from AAA rated entities.

Once the tender is allotted, Earnest Money Deposit (EMD) of around 1-2 per cent (varies on basis of department, nature, tenure and size of contract work) is deposited against the BG. SGIPL has the option of availing mobilization advance, but avails limited amount from the same. The mobilization advance received from the clients against BGs as of July 31, 2021 stands at Rs.50.27 Cr. The retention money is usually 5.0-7.5 per cent of the contract value which is to be 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. SGIPL has success rate of ~70-75 per cent in bidding. Acuité expects the operations of the company to benefit from executing only funded projects.

- **Established and long-standing relationships with key suppliers; order-backed sourcing with presence of price escalation in contracts**

SGIPL purchases raw materials like transformers, conductor, cables, panel boards, switch controls and boards, etc. from reputed government approved vendors. Thus, as the suppliers are approved by DISCOMs, quality of the product is maintained. As SGIPL is in this business for more than 15 years, it has established and maintained good relationships with various suppliers. Further, as a strategy company gives order to more than 2 approved suppliers for every project, so as to avoid dependency on single suppliers. As a strategy, SGIPL procures raw materials required for project only upon confirmation of particular order. Also, all the contracts are having escalation clauses which shield the company from the raw material price movements and maintain the margins. Acuité believes that established relation with key suppliers, order-backed sourcing and presence of price escalation clauses will lead to better operating margins of the company.

- **Gradual Customer and geographical diversification in order book with foray into water segment**

SGIPL has diversified from Jharkhand to North eastern states and Haryana which has better receivable days. Moreover, SGIPL has completed all of its orders in Jharkahnd and is unlikely to bid for projects in this state in medium to long run given the stretched receivable cycle. Notably, SGIPL has forayed into water segment orders too in the state of Rajasthan and Odisha wherein orders tendered are to the tune of ~Rs.134 Cr. Moreover, out of the tendered orders, Rs.718.7 Cr are in Assam for Assam Power Distribution Company Ltd (APDCL) and remaining for Tripura state under Tripura State Electricity Corporation Ltd (TSECL). Also, the LOA pending orders amounting to Rs.321.03 Cr are in state of Assam for APDCL. To take note of, SGIPL is not newer to the north eastern states. Out of the unexecuted order book of Rs.1,051.30 Cr as on March 31, 2021, 31 percent of orders are to be executed for APDCL, 23 percent for Uttar Haryana Bijli Vitran Nigam, 20 percent from Kashmir Power Distribution Corporation Limited and remaining from other state discoms. Acuité believes that gradual customer and geographical diversification will help SGIPL in improving its receivable cycle and lower down its concentration risk on revenue profile.

- **Moderate financial risk profile**

SGIPL financial risk profile is moderate, marked by a moderate networth, low gearing and moderate debt protection metrics. The EBITDA margins of the company improved to 15.41 per cent in FY2021(Prov) against 12.54 per cent in FY2020. The PAT margins of the company marginally deteriorated to 2.32 per cent in FY2021

(Prov) against 5.47 per cent in FY2020 underpinning the decline in EBITDA. The declining profitability level in FY2021 vis-à-vis flattish finance cost and higher dependence on debt has led to marginal deterioration in debt protection metrics. The interest coverage ratio (ICR) and debt service coverage ratio (DSCR) stood at 1.30 times and 1.22 times, respectively in FY2021(Prov) as against 2.60 and 2.10 times, respectively in the previous year.

The net worth of the company stood at Rs.229.89 Cr as on 31 March, 2021 (Prov) as against Rs.224.10 Cr as on 31 March, 2020. This improvement is on the account of moderate accretion to reserves in FY2021(Prov). The gearing level (debt-equity) stood at 0.50 times as on 31 March, 2021 (Prov) as against 0.43 times as on 31 March, 2020. TOL/TNW (Total outside liabilities/Total net worth) stood at 1.40 times as on 31 March, 2021 (Prov) against 2.07 times in previous year.

The total debt of Rs.115.05 Cr as on 31 March, 2021 (Prov) consist of long-term debt of Rs.0.89 Cr, Unsecured loans (USL) from directors/promoters of Rs.14.88 Cr, short-term debt of Rs.98.71 Cr and maturing portion of long term borrowings of Rs.0.57 Cr. NCA/TD (Net cash accruals to total debt) was at 0.07 times in FY2021(Prov) as against 0.36 times in FY2020. Acuité expects the financial risk profile to improve yet remain moderate over the medium to long term.

Weaknesses

• Elongated receivable cycle; high exposure to one of its key principal

SGIPL's working capital cycle is stretched marked by high gross current assets (GCA) days in the range of 300-750 days over the last 3 years ending March 31, 2021(Prov). The GCA days are marked by stretched receivables in the range of 160-280 days (excluding retention money) and moderate inventory days in the range of 14-45 days over the last 3 years ended March 31, 2021. The GCA days include the other current asset portion in form of security deposits, retention money and EMD which manifests GCA days at slightly elevated levels. The inventory days and debtor days were at 41 days and 279 days, respectively, as on March 31, 2021 (Provisional). These are partially offset by the support extended by its creditors which ranged between 265-700 days over the last 3 years ended March 31, 2021. SGIPL's working capital cycle is supported by the fact that SGIPL places a back-to-back order to its suppliers as and when it receives from its customers. Hence, the time span of the collection days' replicates and is applicable for its creditors too, majorly to its sub-contractors. SGIPL's creditor days are high mainly because of LC backed creditors with usance period of 90-120 days and payables to its sub-contractors + retention money/security deposits payable to its sub-contractors. Moreover, the creditor days were stretched as on March 31, 2021 on account of covid-19 wherein the LCs due were converted into CC on temporary basis under the Covid-19 related RBI moratorium package. The high GCA cycle has led to high utilization of its bank lines to an average of 85-90 percent over the last 12 months ended August, 2021.

SGIPL has completed majority of its work orders from Jharkhand Bijli Vitran Nigam Ltd (JBVNL) which constituted major portion of its order book and revenue over the last 2 years ending March 31, 2021. Only 3 percent of work amounting to Rs.26.69 Cr was pending for execution as on March 31, 2021 vis-à-vis receivables of Rs.90.21 Cr (up to 120 days) and retention money of Rs.133.99 Cr. As on August 31, 2021, the receivables up to 120 days from JBVNL were Rs.43.50 Cr and retention money at Rs.180.63 Cr. The debtors up to 120 days from JBVNL accounted for 34 percent of the total receivables up to 120 days whereas the retention money from JBVNL accounted for 57 percent of the total retention realizable.

Acuité believes that the operations of the SGIPL will remain highly working capital intensive on account of continuous submission of security deposits and retention money. Besides, timely receipt of payments from JBVNL will remain key monitorable over the near to medium term.

• Susceptibility to tender-based operations

Revenue and profitability depend entirely on the ability to win tenders. Entities in this segment face intense competition, thus requiring them to bid aggressively to procure contracts; this restricts the operating margin to a moderate level. Also, given the cyclicality inherent in this industry, the ability to maintain profitability margin through operating efficiency becomes critical. Acuité believes that the company's business profile and financial profile can be adversely impacted on account of presence of stiff competition, and has inherent risk of susceptibility to tender based operations.

Liquidity Position: Adequate

SGIPL's liquidity is adequate marked by moderate generation of net cash accruals in FY2021 to its maturing debt obligations, moderate level of unencumbered cash and bank balance adequate cushion in form of unutilized non-fund based bank lines; albeit constrained by high reliance on fund-based short term borrowings. SGIPL generated cash accruals in the range of Rs.7.50-35.00 Cr during last 3 years ending FY2021(Prov) as against its long term debt obligations of Rs.0.60-0.90 Cr for the same period. The company's working capital is high as evident from Gross Current Asset (GCA) of 723 days as on March, 2021(Prov) as compared to 357 days as on March, 2020. Deterioration in GCA days is on account of high dependence on short term borrowings (because of conversion of LC due amount into CC to the tune of Rs.65 Cr for the period of April'20 to May'21) and increase in retention money.

The current ratio stood at 1.75 times as on 31 March 31 2021(Prov) against 1.50 in previous year and the fund based limit remains utilized in the range of 85-90 percent on an average basis over the 12 months ended August, 2021. SGIPL's non-fund based working capital limits utilization has been around 65-70 per cent over the last 12-months period ending August, 2021. The company maintained unencumbered cash and bank balances of Rs.10.38 Cr as on 31 March 31 2021(Prov) against Rs.0.93 Cr in previous year. The company has margin money deposited with the bank of amount Rs.34.35 Cr as on March 31,2021 (Prov). SGIPL's liquidity position is expected to improve given the improvement in receivable cycle and release of retention money. However, timely collection of payment, prudent utilisation of banking facilities to cater the working capital requirements from the increasing order book and dependence on working capital bank lines will be key monitorables over the medium term for the assessment of liquidity position of the company. The company is expected to generate NCA in range of Rs.27.00-35.00 Cr against modest maturing debt obligations in range of Rs.4-5 Cr over the medium term.

Rating Sensitivities

Positive
- Timely execution of its order book leading to substantial improvement in scale of operations while maintaining profitability margins over the medium term.
- Sustainable improvement in Profitability, Leverage and Solvency position of the company.
- Improvement in its working capital cycle.

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

Outlook: Stable

Acuité believes that SGIPL will continue to benefit over the medium to long term on account of long track record of operations, experienced management in the industry and healthy unexecuted order book. 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 cycle and financial risk profile. Conversely, the outlook may be revised to 'Negative' in case SGIPL registers lower-than-expected revenues and profitability or any significant stretch in its working capital management or larger-than-expected debt- funded capital expenditure leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials (Standalone)

	Unit	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	248.62	604.09
PAT	Rs. Cr.	5.77	33.04
PAT Margin	(%)	2.32	5.47
Total Debt/Tangible Net Worth	Times	0.50	0.43
PBDIT/Interest	Times	1.30	2.60

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

None

Any other information

None

Material Covenants

None

Applicable Criteria

- Default Recognition - https://www.acuite.in/view-rating-criteria-52.htm
- Financial Ratios And Adjustments - https://www.acuite.in/view-rating-criteria-53.htm
- Entities In Services Sector - https://www.acuite.in/view-rating-criteria-50.htm
- Infrastructure Entities - https://www.acuite.in/view-rating-criteria-51.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**

Lender's Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Union Bank of India	Cash Credit	Not Applicable	Not Applicable	Not Applicable	43.00	ACUITE BBB-/Stable (Assigned)
Central Bank of India	Cash Credit	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE BBB-/Stable (Assigned)
Canara Bank	Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE BBB-/Stable (Assigned)
HDFC Bank	Cash Credit	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE BBB-/Stable (Assigned)
Proposed Long Term Bank Facility		Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB-/Stable (Assigned)
Union Bank of India	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	324.00	ACUITE A3 (Assigned)
Central Bank of India	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	84.00	ACUITE A3 (Assigned)
Canara Bank	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	16.00	ACUITE A3 (Assigned)
HDFC Bank	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	75.00	ACUITE A3 (Assigned)
Union Bank of India	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	63.50	ACUITE A3 (Assigned)
Central Bank of India	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	19.00	ACUITE A3 (Assigned)
Canara Bank	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	9.00	ACUITE A3 (Assigned)
HDFC Bank	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	17.50	ACUITE A3 (Assigned)
Proposed Short Term Bank Facility		Not Applicable	Not Applicable	Not Applicable	16.00	ACUITE A3 (Assigned)

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About Acuité Ratings & Research:
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