

Press Release

Sri Gopikrishna Infrastructure Private Limited

January 06, 2023

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	65.00	ACUITE BBB- Negative Reaffirmed Stable to Negative	-
Bank Loan Ratings	624.00	-	ACUITE A3 Reaffirmed
Total Outstanding Quantum (Rs. Cr)	689.00	-	-
Total Withdrawn Quantum (Rs.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.689.00 crore bank facilities of Sri Gopikrishna Infrastructure Private Limited (SGIPL). The outlook is revised to '**Negative**' from 'Stable'.

Rationale for the rating

The outlook revision takes into account the lower-than-estimated operational performance. The revenue though showed a year-on-year growth of 22.48 percent in FY2022 at Rs.301.07 Cr (followed by a 50 percent dip in revenue since FY2020); it was lower than Acuite's estimates. Acuite's estimates were based on assumptions of higher realization from Jharkhand Bijli Vitran Nigam Ltd's (JBVNL) collections and higher execution and billing of its other existing orders. To add, the earnings before interest, tax and depreciation (EBITDA) margins dipped by 452 bps in FY2022 to 10.94 percent from 15.46 percent in FY2021 and 12.54 percent in FY2020. Further, traction in JBVNL's release of retention/withheld money and realization of receivables has been observed during the review period. The exposure from JBVNL though reduced from 3 percent to 0.6 percent as a contribution to its order book, albeit, the exposure in terms of debtors and withheld/retention money still remains sizeable at ~Rs.160 Cr as on November 30, 2022 vis-à-vis Rs.224 Cr as on August 31, 2021. Acuite believes timely realisation of debtors and release of the retention money from JBVNL as well as from the newer counterparties in the state of Assam, Jammu & Kashmir and Uttar Pradesh would be key monitorable over the medium term.

The rating reaffirmation continues to take 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 with recent diversification into water segment as well. 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, Hisar & 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 November 30, 2022, SGIPL has an unexecuted order book position of approx. Rs.2,097 Cr; estimated to be executed over the next 24-36 months providing long-term revenue visibility. The outstanding order book is ~7x of the FY2022 revenue. The order book contains L1 worth Rs.1,583.23 Cr for which company has already submitted earnest money deposit (EMD) of 3 percent. 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 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.

- **Continuous 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 Jharkhand 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 Uttar Pradesh and Rajasthan wherein orders tendered are to the tune of ~Rs.700 Cr. Out of the unexecuted order book of Rs.2,097 Cr as on November 30, 2022, 38 percent of orders are to be executed for Assam Power Distribution Company Ltd (APDCL), 29 percent for State Water & Sanitation UP projects, 15 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 declined to 10.94 per cent in FY2022 against 15.46 per cent in FY2021. The PAT margins of the company improved marginally to 2.16 per cent in FY2022 against 1.99 per cent in FY2021 underpinning the lower interest cost resulting from higher non-interest bearing unsecured loans infused in FY2022 and lower dependence on debt. The interest coverage ratio (ICR) and debt service coverage ratio (DSCR) stood at 1.46 times and 1.32 times, respectively in FY2022 as against 1.30 times and 1.19 times, respectively in the previous year.

The net worth of the company stood at Rs.260.51 Cr as on March 31, 2022 as against Rs.239.01 Cr as on March 31, 2021. This improvement is on the account of moderate accretion to reserves and infusion of unsecured loans by promoters to the extent of Rs.15 Cr in FY2022;

unsecured loans amounting to Rs.25 Cr are treated as quasi equity as on March 31, 2022. The gearing level (debt-equity) stood at 0.39 times as on March 31, 2022 as against 0.44 times as on March 31, 2021. TOL/TNW (Total outside liabilities/Total net worth) stood at 1.09 times as on March 31, 2022 against 1.30 times in previous year.

The total debt of Rs.101.00 Cr as on March 31, 2022, consist of long-term debt of Rs.13.18 Cr, Unsecured loans (USL) from directors/promoters of Rs.29.79 Cr, short-term debt of Rs.57.29 Cr and maturing portion of long term borrowings of Rs.0.75 Cr. NCA/TD (Net cash accruals to total debt) was at 0.08 times in FY2022 as against 0.06 times in FY2021. 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 intensive marked by high gross current assets (GCA) days in the range of 300-600 days over the last 3 years ending March 31, 2022. The GCA days are marked by high receivables in the range of 85-220 days (excluding retention money) and moderate inventory days in the range of 14-45 days over the last 3 years ended March 31, 2022. 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 22 days and 149 days, respectively, as on March 31, 2022. These are partially offset by the support extended by its creditors which ranged between 230-670 days over the last 3 years ended March 31, 2022. 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. The high GCA cycle has led to high utilization of its bank lines to an average of 85-90 percent for fund-based and 50-60 percent for non-fund based over the last 12 months ended November 30, 2022.

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 0.6 percent of work was pending for execution as on November 30, 2022 vis-à-vis total receivables of Rs.64.15 Cr and retention money of Rs.98.47 Cr.

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 cyclicity 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.

ESG Factors Relevant for Rating

Not applicable

Rating Sensitivities

Positive

- Timely realization of receivables from JBVNL and release of retention money, 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.

Material covenants

None

Liquidity: Adequate

SGIPL's liquidity is adequate marked by moderate generation of net cash accruals in FY2022 to its maturing debt obligations, low 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 FY2022 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 366 days as on March 31, 2022.

The current ratio stood at 1.46 times as on 31 March 31, 2022 against 1.45 times 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 November 30, 2022. SGIPL's non-fund based working capital limits utilization has been around 50-60 per cent over the last 12-months period ending November 30, 2022. The company maintained unencumbered cash and bank balances of Rs.0.63 Cr as on 31 March 3, 2022 against Rs.10.34 Cr in previous year. The company has margin money deposited with the bank of amount ~Rs.32 Cr as on March 31, 2022. 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.13.00-25.00 Cr against modest maturing debt obligations in range of Rs.3-4 Cr over the medium term.

Outlook: Negative

Acuité has revised the outlook on SCPL to 'Negative' on account of lower-than-expected operational performance and elongated working capital cycle. The rating may be downgraded if there is higher-than-expected decline in its revenues or profitability or further elongation in working capital cycle. The outlook may be revised to 'Stable', if the company is able to show improvement in working capital cycle, liquidity profile.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	301.07	245.82
PAT	Rs. Cr.	6.49	4.89
PAT Margin	(%)	2.16	1.99
Total Debt/Tangible Net Worth	Times	0.39	0.44
PBDIT/Interest	Times	1.46	1.30

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

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
08 Oct 2021	Letter of Credit	Short Term	19.00	ACUITE A3 (Assigned)
	Cash Credit	Long Term	43.00	ACUITE BBB- Stable (Assigned)
	Cash Credit	Long Term	3.00	ACUITE BBB- Stable (Assigned)
	Letter of Credit	Short Term	17.50	ACUITE A3 (Assigned)
	Bank Guarantee	Short Term	324.00	ACUITE A3 (Assigned)
	Letter of Credit	Short Term	63.50	ACUITE A3 (Assigned)
	Proposed Bank Facility	Short Term	16.00	ACUITE A3 (Assigned)
	Bank Guarantee	Short Term	16.00	ACUITE A3 (Assigned)
	Cash Credit	Long Term	7.00	ACUITE BBB- Stable (Assigned)
	Bank Guarantee	Short Term	75.00	ACUITE A3 (Assigned)
	Proposed Bank Facility	Long Term	5.00	ACUITE BBB- Stable (Assigned)
	Cash Credit	Long Term	7.00	ACUITE BBB- Stable (Assigned)
	Bank Guarantee	Short Term	84.00	ACUITE A3 (Assigned)
	Letter of Credit	Short Term	9.00	ACUITE A3 (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Central Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	64.00	ACUITE A3 Reaffirmed
Canara Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	28.00	ACUITE A3 Reaffirmed
HDFC Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	55.00	ACUITE A3 Reaffirmed
Union Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	253.00	ACUITE A3 Reaffirmed
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	39.00	ACUITE BBB- Negative Reaffirmed Stable to Negative
Central Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	7.00	ACUITE BBB- Negative Reaffirmed Stable to Negative
Canara Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	7.00	ACUITE BBB- Negative Reaffirmed Stable to Negative
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	7.00	ACUITE BBB- Negative Reaffirmed Stable to Negative
HDFC Bank Ltd	Not Applicable	Dropline Overdraft	Not Applicable	Not Applicable	Not Applicable	Simple	20.00	ACUITE A3 Reaffirmed
Union Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	52.00	ACUITE A3 Reaffirmed
Central Bank of	Not	Letter of	Not	Not	Not	Simple	16.00	ACUITE A3

India	Applicable	Credit	Applicable	Applicable	Applicable			Reaffirmed
Canara Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	17.00	ACUITE A3 Reaffirmed
HDFC Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	15.00	ACUITE A3 Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE BBB- Negative Reaffirmed Stable to Negative
Not Applicable	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	104.00	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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