

## Press Release

Sri Satya Sai Infrastructure Private Limited

March 04, 2022



## Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	18.00	ACUITE BB+   Stable   Assigned	-
Bank Loan Ratings	65.00	-	ACUITE A4+   Assigned
Total Outstanding Quantum (Rs. Cr)	83.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

## Rating Rationale

Acuite has assigned its long-term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) and short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) to the Rs. 83.00 Cr bank facilities of Sri Satya Sai Infrastructure Private Limited (SSSIPL). The outlook is 'Stable'.

The ratings assigned favorably factor in the satisfactory operating track record in civil construction segment, promoter's industry experience, establish long-standing relationship with various government bodies for repeated business and its moderate financial risk profile. Albeit, the ratings are constrained by pressure on the business risk profile as indicated by declining revenue in FY2021 due to slow-moving order book. Further the operations are constrained by tender-based nature of its operations coupled with intense competition and stretched working capital cycle. Revenue growth and improvement in working capital cycle will be closely monitored over the medium term.

## About the Company

In 1980, Mr. Sathya Murthy Vemula was established a proprietorship concern under the name of VSM Constructions to undertake civil construction works. In 2006, it was converted to a private limited company and renamed as Sri Satya Sai Infrastructure Private Limited (SSSIPL). It is involved in civil construction projects, in particular in the fields of irrigation, water and roads. SSSIPL is registered as a Special Class contractor with major Government departments in Telangana and Andhra Pradesh. SSSIPL's day-to-day operations are being presently looked after by the director Mr. Sathya Murthy Vemula and his son of Mr. Ranjith Kumar Vemula.

## Analytical Approach

Acuite has considered the standalone business and financial risk profile of SSSIPL to arrive at the rating.

## Key Rating Drivers

### Strengths

#### Established track record of promoters in executing civil construction business

The promoters Mr. Sathya Murthy Vemula have a rich experience of over three decades in the civil construction business. The promoter is further supported by his son, Mr. Ranjith Kumar Vemula along with other family members. The company's long tenure existence in the civil construction space has helped it to establish strong relationships with various government bodies for repeated business. As of December 31, 2021, SSSIPL has an unexecuted order book position of Rs. 567 Cr provides adequate revenue visibility over the medium term. Acuité believes that unexecuted order book; promoter's established presence in civil construction works will support SSSIPL's business profile over the medium term.

#### Moderate Financial Risk Profile

SSIPL has moderate financial risk profile marked by tangible net worth of Rs.34.15 Cr as on 31 March, 2021 as against Rs.31.88 Cr as on 31 March, 2020. The improvement in net worth is attributable to higher accretion to reserves. Gearing and total outside liabilities to total net worth (TOL/TNW) is comfortable at 0.62 times and 1.48 times as on March 31, 2021 vis-à-vis 0.70 times and 1.84 times as on March 31, 2020. Its debt protection metrics are comfortable marked by interest coverage ratio (ICR) and net cash accruals to total debt (NCA/TD) at 1.83 times and 0.16 times in FY2021 vis-à-vis 2.07 times and 0.18 times in FY2020, respectively. Acuité believes the company will be able to maintain its financial risk profile in the absence of any major debt-funded capex plan over the medium term.

### Weaknesses

#### Working capital intensive operations

SSIPL's operations are high working capital intensive marked by with gross current assets (GCA) days in the range of 230-315 days over the last 3 years ending March 31, 2021. The GCA underpins the high inventory levels in the range of 171-240 days and moderate debtor days of 25-58 days over the last 3 years ending March 31, 2021. These are partially offset by creditor at 298-757 days over the last 3 years ending March 31, 2021; the bank lines had been utilized at an average of 86 percent over the last 6 months ending December 2021. Acuité believes that the operations of the SSSIPL will remain high working capital intensive over the medium term.

#### Moderate scale of operations and competitive nature of industry

SSIPL's scale of operations continues to be moderate with revenues of Rs. 53.53 Cr in FY2021, which declined from 23 percent from Rs. 69.54 Cr in FY2020 owing to slowdown in order execution due to the pandemic. Though the revenues are declined company is able to improve and sustain its operating margin within the range of 10-15 percent over the past three years through FY2021. The company has executed work of Rs. 96 Cr in 9M FY2022 and unexecuted order book position of about Rs.567 Cr, the revenue profile is expected to improve over the medium term. The civil-construction industry is intensely competitive on account of fragmented nature with presence of a large number of players. Also, tender nature of business constrains the business risk profile. Acuité believes that The ability of the company to increase the scale of operations by timely execution of the outstanding order book coupled with healthy order book addition will be critical to revenue growth in the medium term.

## ESG Factors Relevant for Rating

Not Applicable

### Rating Sensitivities

- Sustained increase in order inflow, providing adequate revenue visibility for the medium term

- Significant improvement in scale of operations while maintaining profitability margins
- Further stretch in the working capital cycle leading to increase in working capital borrowing and weakening of financial risk profile and liquidity
- Timely execution of its order book

## Material covenants

None

## Liquidity Position: Adequate

Liquidity of SSIPL is adequate marked by moderate cash accruals to its repayment obligations albeit and albeit constraint by working capital intensive nature of its operations. SSIPL generated cash accruals of Rs.3.40 to 5.20 Cr during the last 3 years through 2019-21, while its maturing debt obligations were at Rs.2-2.75 Cr during the same period. The cash accruals of the company are estimated to remain around Rs.5-7 Cr during 2022-24 while their repayment obligations are estimated to be around Rs.2.50-3.00 Cr during the same period. It has free cash and bank balance of Rs. 4.82 Cr as on March 31, 2021 and current ratio of 1.23 times as on March 31, 2021. the bank lines have been utilized at an average of 86 percent over the last 6 months ending December 2021. Acuité believes that the liquidity of the SSIPL is likely to remain adequate over the medium term on account of adequate cash accruals against its repayment obligations.

## Outlook: Stable

Acuité believes that SSSIPL will maintain a 'Stable' outlook over the medium term backed by its experienced management and adequate revenue visibility. The outlook may be revised to 'Positive' in case of sustenance of the revenues and profitability margins while improving its working capital management. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital management or larger-than-expected debt- funded capital expenditure or any significant advances to any group entities resulting in deterioration of its financial risk profile and liquidity.

## Other Factors affecting Rating

Not Applicable

## Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	53.54	69.54
PAT	Rs. Cr.	1.39	2.62
PAT Margin	(%)	2.60	3.77
Total Debt/Tangible Net Worth	Times	0.62	0.70
PBDIT/Interest	Times	1.83	2.07

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

Not Applicable

## Any other information

None

### Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Infrastructure Investment Trust (InvIT): <https://www.acuite.in/view-rating-criteria-72.htm>

### Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

### Rating History:

Not Applicable

### Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Canara Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE A4+   Assigned
Union Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A4+   Assigned
Union Bank of India	Not Applicable	Overdraft	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BB+   Stable   Assigned
Canara Bank	Not Applicable	Overdraft	Not Applicable	Not Applicable	Not Applicable	9.00	ACUITE BB+   Stable   Assigned
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE BB+   Stable   Assigned

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### About Acuité Ratings & Research

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