



Press Release
Sri Satya Sai Infrastructure Private Limited
August 14, 2024
Rating Downgraded and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	42.00	ACUITE BB Stable Downgraded	-
Bank Loan Ratings	41.00	-	ACUITE A4+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	83.00	-	-

Rating Rationale

Acuite has downgraded its long-term rating to **'ACUITE BB' (read as ACUITE double B)** from **'ACUITE BB+' (read as ACUITE double B plus)** and reaffirmed the short-term rating to **'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'**.

Rationale for downgrade:

The rating downgrade takes into account the slower-than-anticipated buildup of the order pipeline as reflected in the modest orderbook position of Rs.121 Cr. (unexecuted order value) as on May 31, 2024. No new orders have been received since the last year. The outstanding order book is 1.12x of the FY2024 (Prov) revenue, and relatively slower movement is expected in the order book in the next one year of time. Further, the aging of the outstanding order book is almost near 7-8 years.

The rating also considers the established track record of promoters in executing civil construction business, improved operating income in FY2024 (Prov), satisfactory operating margins, and comfortable financial risk profile. The company registered YOY growth of 69 percent in FY2024 (Prov.), which stood at Rs. 107.31 Cr. as against Rs. 63.50 Cr. in FY2023.

The rating, however, remains constrained by intensive working capital management and the inherent risk of tender-based operations.

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.

Unsupported Rating

Not applicable

Analytical Approach

Acuité 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 over three decades of experience in the civil construction business. The promoter is further supported by his son, Mr. Rajnath Kumar Vemula, along with other family members. The company's long tenure in the civil construction space has helped it establish strong relationships with various government bodies for repeated business. Acuité believes that the unexecuted order book and the promoter's established presence in civil construction work will support SSSIPL's business profile over the medium term.

- **Comfortable financial risk profile**

The financial risk profile of the company is comfortable, marked by a moderate net worth, comfortable debt protection metrics, and low gearing. The net worth of the company stood at Rs.49.22 Cr. and Rs.43.22 Cr. as on March 31, 2024 (prov.) and 2023 respectively. The gearing of the company has been improving over the last 2 years ending March 31, 2024 (prov.), due to the repayment of long-term debt and the utilization of short-term debt. It stood at 0.36 times as of March 31, 2024 (prov.) against 0.73 times as on March 31, 2023. Debt protection metrics: interest coverage ratio and debt service coverage ratio stood at 2.93 times and 1.52 times as on March 31, 2024 (prov.), respectively, as against 2.87 times and 1.55 times as on March 31, 2023, respectively. TOL/TNW stood at 1.25 times and 0.95 times as on March 31, 2024 (prov.) and 2023, respectively. The debt to EBITDA of the company stood at 1.61 times as on March 31, 2024 (prov.) as against 3.42 times as on March 31, 2023. Acuite believes that the financial risk profile of the company will remain comfortable over the medium term.

Weaknesses

- **Modest order Book position and significant proportion of slow-moving orders**

The company's order book is modest, with an unexecuted order book position of Rs.121.00 Cr. as on May 31, 2024. The outstanding order book is 1.13x of the FY2024 (prov.) revenue, which provides inadequate revenue visibility for the next one to two years. No new orders have been received since last year. Further, the aging of the outstanding order book is almost 7-8 years. The order book position is expected to show a relatively slower movement over the medium term. Acuité believes that significant improvement in the order book will be key monitorable to scaling up operations in the near to medium term.

- **Intensive working capital management**

The working capital management of the company is intensive in nature; GCA days stood at 274 days in FY 2024 (prov.) as against 335 days in FY 2023. However, there is an improvement in the GCA days in FY2024 (Prov), mainly on account of improved inventory days and debtor days. Inventory days stood at 121 days in FY2024 as against 204 days in FY2023. The debtor's day stood at 12 days as on March 31, 2024 (prov) as against 57 days as on March 31, 2023. Further, the average bank limit utilization in the last six months ended June 24 remained at ~78 percent for fund-based and 58 percent for non-fund-based. Acuité believes that the working capital operation of the SSSIPL may continue to remain intensive, considering the nature of the industry.

- **Tender based operation**

The industry is unorganized and highly competitive and hence, the revenue generation is dependent on ability of company in succeeding in receiving tenders.

Rating Sensitivities

- Significant improvement in order book, providing adequate revenue visibility for the medium term
- Any elongation of the working capital cycle leading to deterioration in debt protection metrics and liquidity profile
- Timely execution of its order book

Liquidity Position: Adequate

The company has generated adequate net cash accruals to service its debt obligations. The net cash accruals stood at Rs.5.43 Cr. in FY2024 (Prov.) as against the repayment of Rs.2.27 Cr. for the same period and were expected to generate cash accruals in the range of Rs.5.33-5.39 Cr. against the CPLTD of Rs.0.80- 1.94 Cr. over the medium term. Unencumbered cash and bank balances stood at Rs. 3.42 Cr. as on March 31, 2024 (prov). The current ratio of the company stood at 1.56 times as on March 31, 2024 (prov). Further, the average bank limit utilization in the last six months ended June: 24 remained at ~78 percent for fund-based and 58 percent for non-fund-based. Acuité believes that SSSIPL liquidity will remain sufficient over the medium term, backed by the repayment of its debt obligations and moderate accruals.

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 significant improvement in the order book position and stable scale of operations while maintaining the profitability and successful execution of work orders. Conversely, the outlook may be revised to 'Negative' in case of any further stretch in its working capital management, 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

None

Key Financials

Particulars	Unit	FY 24 (Provisional)	FY 23 (Actual)
Operating Income	Rs. Cr.	107.31	63.50
PAT	Rs. Cr.	4.19	3.53
PAT Margin	(%)	3.91	5.56
Total Debt/Tangible Net Worth	Times	0.36	0.73
PBDIT/Interest	Times	2.93	2.87

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>
- 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
24 May 2023	Secured Overdraft	Long Term	14.00	ACUITE BB+ Stable (Reaffirmed)
	Secured Overdraft	Long Term	3.50	ACUITE BB+ Stable (Reaffirmed)
	Bank Guarantee (BLR)	Short Term	41.00	ACUITE A4+ (Reaffirmed)
	Proposed Long Term Bank Facility	Long Term	24.50	ACUITE BB+ Stable (Reaffirmed)
04 Mar 2022	Secured Overdraft	Long Term	9.00	ACUITE BB+ Stable (Assigned)
	Secured Overdraft	Long Term	5.00	ACUITE BB+ Stable (Assigned)
	Proposed Long Term Bank Facility	Long Term	4.00	ACUITE BB+ Stable (Assigned)
	Bank Guarantee (BLR)	Short Term	50.00	ACUITE A4+ (Assigned)
	Bank Guarantee (BLR)	Short Term	15.00	ACUITE A4+ (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Canara Bank	Not avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	41.00	ACUITE A4+ Reaffirmed
Not Applicable	Not avl. / Not appl.	Proposed Long Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	24.50	ACUITE BB Stable Downgraded (from ACUITE BB+)
Canara Bank	Not avl. / Not appl.	Secured Overdraft	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	14.00	ACUITE BB Stable Downgraded (from ACUITE BB+)
Union Bank of India	Not avl. / Not appl.	Secured Overdraft	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	3.50	ACUITE BB Stable Downgraded (from ACUITE BB+)

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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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