



Press Release
SSS HITECH CONSTRUCTIONS PRIVATE LIMITED
May 12, 2022
Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	12.00	ACUITE BBB- Stable Assigned	-
Bank Loan Ratings	25.77	-	ACUITE A3 Assigned
Total Outstanding Quantum (Rs. Cr)	37.77	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite 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. 37.77 Cr bank facilities of SSS HITECH CONSTRUCTIONS PRIVATE LIMITED (SSS Hi tech or Company). The outlook is '**Stable**'.

The ratings assigned favorably factor in the satisfactory operating track record in the civil construction segment, the promoter's industry over two decades, establish a long-standing relationship with various government bodies for repeat business and its moderate financial risk profile. Albeit, the ratings are constrained by working capital intensive nature of its operations and the tender-based nature of its operations coupled with intense competition. Growing revenues and improvement in the working capital cycle will be closely monitored over the medium term.

About the Company

SSS Hi-Tech Constructions Private Limited was initially established in 2009, as a partnership under the name of SSS Constructions promoted by Mr. Natesan Srinivasan and his family members; it was reconstituted as a private limited company in 2012. The company is engaged in civil construction activities like construction of Buildings, and other civil construction activities mainly in Tamilnadu. The company majorly works for the government entities such as Public Works Department (PWD) Tamilnadu, Puducherry and Andhra Pradesh. The operations of the company are currently headed by Mr. Natesan Srinivasan and Mrs. Sreedevi.

Analytical Approach

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

Key Rating Drivers

Established track record of promoters in executing civil construction business

The promoters Mr. Natesan Srinivasan have extensive experience of more than two decades in the field of civil construction. The promoter is further supported by 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 March 31, 2022, SSS Hi Tech had an unexecuted order book position of Rs. 315 Cr which provides adequate revenue visibility over the medium term. Acuité believes that unexecuted order book; promoter's established presence in civil construction works will support SSS Hi Tech's business profile over the medium term.

Moderate Financial Risk Profile

SSS Hi Tech's financial risk profile is moderate marked by moderate net worth, healthy gearing (debt-to-equity), and moderate total outside liabilities to total net worth (TOL/TNW) and moderate debt protection metrics. SSS Hi Tech's tangible net worth was Rs.21.59 Cr as on 31 March, 2021 as against Rs.17.38 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 0.54 times and 1.52 times as on March 31, 2021 vis-à-vis 0.14 times and 1.35 times as on March 31, 2020. Its debt protection metrics are moderate marked by interest coverage ratio (ICR) and net cash accruals to total debt (NCA/TD) at 4.92 times and 0.44 times in FY2021 vis-à-vis 5.04 times and 1.35 times in FY2020, respectively. Acuité believes the company will be able to maintain its moderate financial risk profile in the absence of any major debt-funded capex plan over the medium term.

Weaknesses

Working capital intensive nature of operations

SSS Hi-Tech's operations are high working capital intensive marked by with gross current assets (GCA) days in the range of 125-189 days over the last 3 years ending March 31, 2021. The GCA underpins the moderate inventory levels in the range of 61-66 days and moderate debtor days of 14-18 days over the last 3 years ending March 31 2021. These are partially offset by creditor at 92-174 days over the last 3 years ending March 31, 2021; the bank lines have been utilized at an average of 81 percent over the last 6 months ending March 2022. Acuité believes that the operations of SSS Hi-Tech will remain high working capital intensive over the medium term.

Moderate scale of operations and modest operating profitability

SSS Hi-Tech's scale of operations continues to be moderate with revenues of Rs. 87.44 Cr in FY2021, as against Rs. 81.46 Cr in FY2020. SSS Hi-Tech's contracts have price-variation clauses, which protect the company from pricing volatility, and thus, enable it to maintain its margins going forward. The ROCE of the company stood at 27.90% in FY21 (FY20: 33.31%). The company has executed work of ~Rs. 93 Cr in FY2022 and it has unexecuted order book position of about Rs. 315 Cr which provides adequate revenue visibility over the medium term.

Fragmented and intensely competitive nature of the industry

The highly fragmented nature of the civil construction industry, coupled with a tender-based contract-awarding system, keeps its margins under check. The presence of several large and small scale players in the construction industry leads to intense competition in the bidding process, which puts pressure on the company's revenue and profitability. 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
- Any large debt-funded capital expenditure, resulting in deterioration of financial risk profile
- Timely execution of its large order book

Material covenants

Not Applicable

Liquidity Position: Adequate

Liquidity of SSS Hi Tech is adequate marked by moderate cash accruals to its repayment obligations albeit and albeit constraint by working capital intensive nature of its operations. SSS Hi Tech generated cash accruals of Rs.4 to 5 Cr during the last 3 years through FY2019-21, while its maturing debt obligations were at Rs.1 to 1.25 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.1-2 Cr during the same period. It has free cash and bank balance of Rs. 14.06 Cr as on March 31, 2021 and current ratio of 1.61 times as on March 31, 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 SSS Hi Tech 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.	87.44	81.46
PAT	Rs. Cr.	4.21	3.57
PAT Margin	(%)	4.81	4.38
Total Debt/Tangible Net Worth	Times	0.54	0.14
PBDIT/Interest	Times	4.92	5.04

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

<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
State Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	19.00	ACUITE A3 Assigned
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE BBB- Stable Assigned
State Bank of India	Not Applicable	Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE A3 Assigned
State Bank of India	Not Applicable	Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE BBB- Stable Assigned
Not Applicable	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.77	ACUITE A3 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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