

## Press Release

### Santhosh Buildwel Infra Private Limited

January 05, 2023



## Rating Assigned

| Product                               | Quantum<br>(Rs. Cr) | Long Term Rating               | Short Term Rating     |
|---------------------------------------|---------------------|--------------------------------|-----------------------|
| Bank Loan Ratings                     | 12.00               | ACUITE BB+   Stable   Assigned | -                     |
| Bank Loan Ratings                     | 29.50               | -                              | ACUITE A4+   Assigned |
| Total Outstanding Quantum<br>(Rs. Cr) | 41.50               | -                              | -                     |
| Total Withdrawn Quantum<br>(Rs. Cr)   | 0.00                | -                              | -                     |

## Rating Rationale

Acuite has assigned its long-term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) and its short-term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs.41.50 crore bank facilities of Santhosh Buildwel Infra Private Limited (SBIPL). The outlook is '**Stable**'.

### Rationale for rating assigned

The rating takes into account the extensive experience of the management in the constructions business along with long track record of operations company. The rating also factors in the healthy order book position of the company providing steady revenue visibility over the medium term. Furthermore, the rating also considers the fact that the company closely works with the Karnataka Government housing board, irrigation department and undertakes their projects. The rating is however constrained on account of modest scale of operations, moderate net worth and tender based competitive nature of industry.

### About the Company

Santhosh Buildwel Infra Private Limited (SBIPL) an established construction company was incorporated in 2009, with its registered office in Bengaluru, Karnataka. The company undertakes civil construction projects for roads, buildings, irrigation, and other infrastructure projects on behalf of various departments of Government of Karnataka as well as private institutions. The company is a part of the Talampally group of companies and specializes in construction of High-rise Buildings, Roads, Bridges, Dams, Canals, Flyovers, Airports, Railway tracks and Housing layout.

### Analytical Approach

Acuite has considered standalone business and financial risk profile of Santhosh Buildwell Infra Private Limited (SBIPL)

### Key Rating Drivers

### Strengths

Experienced management and long track record of operations

SBIPL commenced operations from 2009. The company is promoted by its directors, Mr. Dhanraj Shivalingappa Talampally, Mr. Santoshkumar Talampally, and Mr. Devaraj Talampally. The company is a part of Talampally group which was started in 1999 with establishment of Basavakalyan College of Engineering followed by Basavakalyan College of D.Ed & ITI. Currently, Talampally group is diversified into a host of business ventures relating to construction, rubber, bricks, tiles etc. Further, SBIPL is specialized in executing turnkey projects majorly in government sectors. The company majorly undertakes projects from Karnataka Government housing board, and irrigation department under its auspices and has taken up projects such as construction of roads, irrigation, housing & has recently laid the foundation for a polytechnic college in Bidar. The promoters' extensive experience is also reflected through the healthy order book position of the firm of around Rs.200 crore as on Nov 2022 to be executed in the next 36 months. Hence, the healthy order book provides moderate revenue visibility for the firm over the medium term.

Acuité believes that the promoters' extensive experience will help the firm to maintain long-standing relations with its customers and is expected to support its business risk profile over the medium term.

### **Average financial risk profile**

Financial risk profile of SBIPL is average marked by low networth, moderate gearing and average debt protection metrics. The net worth of the company stood at Rs.19.87 Cr as on 31 March, 2022 against Rs.17.71 Cr as on 31 March, 2021. The gearing stood improved as on March 31, 2022 at 0.65 times against 1.00 time as on March 31, 2021 as the company's long term debt reduced and lower short term limits being utilised as compared to the previous year. The debt-equity is expected to further improve in absence of any additional borrowings. The total debt of Rs.12.90 Cr as on 31 March, 2022 consists of long term bank borrowings of Rs.2.16 Cr, short term working capital limit of Rs.9.12 Cr and unsecured loans from partners of Rs.0.52 Cr. The interest coverage ratio stood at 2.90 times for FY2022 as against 2.51 times for FY2021. The DSCR stood at 1.01 time for FY2022 as compared to 1.62 times for FY2021. The Net Cash Accruals to Total debt stood at 0.19 times for FY2022 as against 0.13 times for FY2021.

Acuité expects SBIPL's ability to improve its financial risk profile over the medium term will remain a key rating sensitivity factor.

### **Weaknesses**

#### **Stagnating revenue albeit improved profitability margins**

SBIPL reported revenue of Rs.41.81 Cr for FY2022 against Rs.41.78 Cr in FY2021. The revenue growth remained subdued on account of disruptions caused by Covid 19 related lockdowns. As on November 2022 the company has reported revenues of around Rs. 32 Cr. Out of the total unexecuted order book of Rs.200 Cr as on 30th November 2022, around additional Rs. 28.99 Cr. are scheduled to be executed in FY2023 and timely completion of work on these orders will remain key monitorable. Despite the stagnant revenues, the operating margin of the company has remained stable and stood at 11.20 percent in FY2022 as against 10.98 percent in FY2021 due to decrease in material costs. On the other hand, the company reported net profit of Rs.2.15 Cr in FY2022 as against Rs.1.92 Cr in FY2021.

Acuité expects SBIPL's ability to improve its scale of operations while maintaining profitability over the medium term will remain a key rating sensitivity factor.

#### **Intensive working capital cycle**

SBIPL's working capital cycle is intensive marked by high Gross Current Assets (GCA) of 214 days for FY2022 as against 224 days for FY2021. This is primarily on account of high inventory days which stood at 87 days in FY2022 as against 91 days in FY2021. The debtor days stood at 51 in FY2022 against 66 in FY2021. Further, the company needs to deposit around 5% of the project value in the form of Earnest money deposit apart from the retention money and security deposit which is received after completion of the project. This increases the company's dependence on external borrowings reflected by high bank limit utilization of ~85 percent for 6 months' period ended November 2022. Further, creditor days stood at 54 days in FY2022 as against 55 days in FY2021.

Acuité believes SBIPL's ability to improve its working capital cycle will remain a key rating sensitivity factor.

## **Tender based business along with competitive and fragmented industry**

SBIPL's major business is bagged through open tenders. Hence, the revenue earned is directly dependent upon the quantum of contracts bagged and executed during the year. Risk becomes more pronounced as tendering is based on minimum amount of bidding of contracts. Company has to do tendering on competitive prices; this may affect the profitability of the firm. Moreover, the infrastructure sector is marked by the presence of various mid to big size players. It might face intense competition from the other players in the sectors. Risk becomes more pronounced as tendering is based on minimum amount of bidding of contracts. However, this risk is mitigated to an extent as management has been operating in this industry for more than a decade.

## **Rating Sensitivities**

- Timely execution of the pending order book
- Significant improvement in scale of operations while maintaining profitability
- Any further stretch in working capital cycle and deterioration in liquidity position.

## **Material covenants**

None

## **Liquidity Position Stretched**

The liquidity position of the company is stretched on account of working capital intensive nature of operations marked by high GCA days of 214 days for FY2022. Further, the same increases the company's dependency on external borrowings reflected by high bank limit utilization of ~85 percent for 6 months' period ended November 2022. The stretched liquidity position is also marked by modest Net Cash Accruals against the repayment obligations of the company. The NCA for FY2022 stood at Rs. 2.47 Cr. against debt obligations of around Rs. 2.43 Cr. However, with certain long-term loans being paid off, the cushion between NCA and repayments is expected to improve in the coming years in the absence of any additional debt. The NCA/TD stood low at 0.19 times in FY2022 and 0.13 times in FY2021. Acuité believes that the liquidity position of the company will continue to remain stretched on account of working capital intensive nature of operations with modest net cash accruals.

## **Outlook: Stable**

Acuité believes that SBIPL will maintain a 'Stable' outlook over the medium term owing to its experienced management and long track record of operations. The outlook may be revised to 'Positive' if there is substantial and sustained improvement in company's operating income and profitability, while maintaining its working capital cycle and liquidity. Conversely, the outlook may be revised to 'Negative' in case of weakening of its liquidity profile and debt protection metrics.

## **Other Factors affecting Rating**

Not Applicable

## **Key Financials**

| Particulars                   | Unit    | FY 22 (Actual) | FY 21 (Actual) |
|-------------------------------|---------|----------------|----------------|
| Operating Income              | Rs. Cr. | 41.81          | 41.78          |
| PAT                           | Rs. Cr. | 2.15           | 1.92           |
| PAT Margin                    | (%)     | 5.15           | 4.60           |
| Total Debt/Tangible Net Worth | Times   | 0.65           | 1.00           |
| PBDIT/Interest                | Times   | 2.90           | 2.51           |

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

Criisl vide its press release dated 15.02.2021, rated the company to CRISIL B+/A4; INC.

**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](http://www.acuite.in).

**Rating History:**

Not Applicable

**Annexure - Details of instruments rated**

| Lender's Name       | ISIN           | Facilities           | Date Of Issuance | Coupon Rate    | Maturity Date  | Complexity Level | Quantum (Rs. Cr.) | Rating                         |
|---------------------|----------------|----------------------|------------------|----------------|----------------|------------------|-------------------|--------------------------------|
| State Bank of India | Not Applicable | Bank Guarantee (BLR) | Not Applicable   | Not Applicable | Not Applicable | Simple           | 5.50              | ACUITE A4+   Assigned          |
| Canara Bank         | Not Applicable | Bank Guarantee (BLR) | Not Applicable   | Not Applicable | Not Applicable | Simple           | 24.00             | ACUITE A4+   Assigned          |
| State Bank of India | Not Applicable | Cash Credit          | Not Applicable   | Not Applicable | Not Applicable | Simple           | 4.00              | ACUITE BB+   Stable   Assigned |
| Canara Bank         | Not Applicable | Cash Credit          | Not Applicable   | Not Applicable | Not Applicable | Simple           | 8.00              | ACUITE BB+   Stable   Assigned |

## Contacts

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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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