



Press Release

Shrushti Contech Private Limited (SCPL)

May 11, 2020

Ratings

Instrument / Facility	Amount (Rs. Crore)	Ratings	Rating Action
Long Term Bank Facilities – Cash Credit*	29.00	IVR BBB- / Stable outlook (IVR Triple B Minus with Stable Outlook)	Assigned
Short Term Bank Facilities –Letter of Credit	5.00	IVR A3 (IVR A three)	Assigned
Long Term /Short Term Bank Facilities –Bank Guarantee**	58.61	IVR BBB- / Stable outlook (IVR Triple B Minus with Stable Outlook) and IVR A3 (IVR A Three)	Assigned
Total	92.61		

*Cash Credit includes proposed limit of INR 10.00 Crore

**Bank Guarantee includes proposed limit of INR 25.00 Crore

Details of Facilities are in Annexure I

Detailed Rationale

The aforesaid rating assigned to the bank facilities of the entity derives comfort from its experienced promoters & management, healthy scale of operations and stable profitability, clients and strategic partnerships, proven project execution capability, reputed clientele, healthy order book and moderate financial risk profile. However, the rating strengths are partially offset by working capital intensive nature of operations, clients and supplier concentration risk and intensely competitive industry.

Key Rating Sensitivities

Upward factors:

- Substantial & sustained improvement in revenue leading to improvement in debt protection metrics.

Downward factors:

Any decline in revenue and profitability leading to deterioration of the debt protection metrics and/or deterioration in gross working capital cycle.



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Key Rating Drivers with detailed description

Key Rating Strengths

Experienced promoters & management team:

SCPL was a partnership firm established in 2005 and later constituted as private limited company in 2013. The company is promoted by its managing director, Jampala Rajasekhar Reddy along with other directors, Jampala Madhusudhan Reddy, Jampala Prasannalakshmi and Jampala Sujatha who possess experience of around two decades in civil construction industry. The extensive experience has enabled the company forge healthy relationships with customers and suppliers. The promoters are supported by a team of experienced and qualified professionals.

Healthy revenue growth & Stable EBITDA margin:

The company has reported healthy revenue growth with compounded annual growth rate (CAGR) of around 9.15 percent through the last three years ended 31 March, 2019. The FY20 provisional figures depicted an increase to INR 156.78 Crore (FY19: INR 137.42 Crore, FY18: INR 132.22 Crore, FY17: INR 115.34 crore) as company has established a good presence in the regions it operates. The EBITDA margins improving steadily to 10.44% in FY20 (Provisionals) (9.53%, 10.47%, 9.97%).

Proven project execution capability:

Over the past years, the entity has successfully completed many projects in Andhra Pradesh, Telangana, Maharashtra, Karnataka and Odisha. They have ensured timely completion of the projects. The repeat orders received from its clientele and entering into the Joint ventures with reputed players in the industry validate its execution capabilities.



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Reputed client base:

Long presence of the promoters in the industry has helped the company in developing long standing relationships with various intermediaries in the value chain. The company mainly bids for tenders floated by world bank and Asian development banks and is mainly engaged in electrical and civil projects. Moreover, the company also works as a sub-contractor for other contractors.

Clients and Strategic Partnerships:

SCPL has entered into consortium agreement with Bharat Heavy Electricals Limited (BHEL) who is the largest manufacturer of GIS equipment in India and secured an order worth 173 crores of GIS based substation automation projects in Odisha. It has also entered into a consortium agreement with Tech Mahindra for execution of Smart City projects in the state of Orissa and Gujarat. It has also entered into an arrangement with IBM India Private Limited for technical collaboration for implementing SMART GRID Programme for DISCOMS .i.e Distribution Companies in the state of Andhra Pradesh and Telangana. The Company also has been empanelled with The Odisha Small Industries Corporation Limited for implementing and improving energy efficiency. The Company has also entered into an agreement with Efcon India Private Limited for implementing energy efficiency street lighting.

Healthy order book:

The group has a healthy unexecuted order book of INR 467.5 Crore as on March 31, 2019 with orders across 21 contracts which is about 3.40 times of its FY19 revenue. Majority of the orders are expected to be completed by FY22.

Moderate financial risk profile:

The financial risk profile is moderate as net worth, debt protection measures and gearing are maintained at moderate levels. The Net worth of the group stood at INR 57.16 Crores in FY20 (Provisionals) (48.89, 24.42, 22.44). The overall gearing ratio of the group improved at 0.40x in FY20 Provisionals from 0.58x in FY 19 and 1.29x in FY 18. The long-term debt to equity stood at 0.01x in FY20 Provisionals, 0.09x in FY19 and 0.17x in FY18.



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Key Rating Weaknesses

Working capital intensive nature of operation

The operations of group are working capital intensive as a large amount of working capital remains blocked in earnest money deposits and retention money. Furthermore, majority of its construction works and consequent billings are skewed towards last two quarters (almost ~30-40% of sales are booked in the last quarter on an average) which led to high debtors outstanding as on the last date of the financial year (payments are generally been received in 1st quarter of the next fiscal) and resulted in high average collection period. Further, the company's creditor's period is also high as it tries to match the payments of its suppliers and sub-contractors with its receipt of payments from debtors. The inventory days remains high as the company also keeps the stock of PSCC poles.

Clients and Supplier concentration risk:

The company's majority of revenue and supplies come from its top 5 clients and suppliers respectively making a high concentration risk. The top 5 clients of the company account for 92% of the total sales of FY19 and the top 5 suppliers of the company account for 73% of the total company's raw material supplies of FY19.

Intensely competitive industry:

The domestic infrastructure/construction sector is highly crowded with presence of many players with varied statures & capabilities. Boom in the infrastructure sector, a few years back, resulted in increase in the number of players. While the competition is perceived to be healthy, significant price cut by few players during the bidding process is a matter of serious concern as the same can dent the margins.

Analytical Approach: Consolidated

For arriving at the rating, Infomerics has combined the business and financial risk profiles of 2 companies Shrushti Contech Private Limited (SCPL) and Sun Shrushti Private Limited (SSPL) moving forward referred as a Shrushti group, as they are in the same lines of business under a common management and have financial linkages & legal linkages as Sun Shrushti Private Limited (SSPL) is the subsidiary of Shrushti Contech Private Limited (SCPL). SCPL has a 90.90% stake in SSPL.



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Applicable Criteria

Rating Methodology for Infrastructure Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity – Adequate

The current ratio and quick ratio remained comfortable at 1.46x and 0.96x respectively as on March 31, 2019. The company's cash flow from operation also remains adequate. The liquidity of the company expected to remain Adequate in the near to medium term in view of sufficient cash accruals in comparison to debt repayment

About the Group and Company

Established as a firm under the name Shrushti Con Tech ('SCT', 'the firm') in 2002 by a team of engineers and economists. It reconstituted as a private limited company in June 2013. The company is based out of Hyderabad and is into execution of EPC works. It is also into the manufacturing of Pre-stressed concrete poles (PSCC) with an installed capacity of 1,90,800 poles per annum.

Sun Shrushti Private Limited (SSPL) is the subsidiary of SCPL with an aim to provide sustainable, innovative, and cost effective solutions across the entire Solar Power Value Chain.

Financials (Consolidated):

For the year ended/ As On	31-03-2018 (Audited)	31-03-2019 (Audited)	31-03-2020 (Provisionals)
Total Operating Income	132.22	137.42	156.78
EBITDA	13.84	13.09	16.36
PAT	4.13	4.37	6.63
Total Debt	34.48	28.17	23.09
Tangible Net-worth	26.74	48.89	57.16
Ratios			
EBITDA Margin (%)	10.47	9.53	10.44
PAT Margin (%)	3.10	3.17	4.22
Overall Gearing Ratio (x)	1.29	0.58	0.40

* Classification as per Infomerics' standards



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Status of non-cooperation with previous CRA: N.A.

Any other information: N.A.

Rating History for last three years:

Sl. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Long Term Fund based Bank Facility – Cash Credit*	Long Term	29.00	IVR BBB- / Stable outlook [IVR Triple B Minus with Stable Outlook]	--	--	--
2.	Short term Non Fund based Bank Facility –Letter of Credit	Short Term	5.00	IVR A3 [IVR A Three]			
3.	Long/Short term Non Fund based Bank Facility – Bank Guarantee**	Short Term/ Long Term	58.61	IVR BBB- / Stable outlook [IVR Triple B Minus with Stable Outlook] and IVR A3 [IVR A Three]	--	--	--

*Cash Credit includes proposed limit of INR 10.00 Crore

**Bank Guarantee includes proposed limit of INR 25.00 Crore

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure I: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Facility – Fund Based - Cash Credit*	NA	NA	Revolving	29.00	IVR BBB- / Stable outlook [IVR Triple B Minus with Stable Outlook]
Short term Non Fund based Bank Facility –Letter of Credit	NA	NA	--	5.00	IVR A3 [IVR A Three]
Long Term/Short Term Facility – Non Fund Based – Bank Guarantee**	NA	NA	--	58.61	IVR BBB- / Stable outlook [IVR Triple B Minus with Stable Outlook] and IVR A3 [IVR A Three]

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