

Press Release

SRK Constructions and Projects Pvt Ltd (SCPPL)

January 08, 2020

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Ratings Assigned
1	Long Term Bank Facilities	60.00	IVR BBB /Stable (IVR Triple B with Stable Outlook)
2	Short Term Bank Facilities	237.00	IVR A3 (IVR A Three)
	Total	297.00	

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of SRK Constructions and Projects Pvt Ltd (SCPPL) derives comfort from its experienced & highly qualified managerial & technical team, proven project execution capability, reputed clientele, healthy order book giving visibility to revenue in the medium term though exposed to geographical/project concentration risks, comfortable capital structure with healthy debt protection metrics. However, the rating strengths are partially offset by decline in revenue and profit margins, susceptibility of profitability to volatile input prices, tender driven nature of business, highly fragmented & competitive nature of the construction sector and high working capital intensity.

Key Rating Sensitivities

Upward Factor:

- Growth in scale of operations with improvement in profitability on a sustained basis
- Sustainance of the capital structure
- Manage working capital requirements efficiently with improvement in liquidity position

Downward factor:

- Any deterioration in liquidity profile
- Moderation in the capital structure with deterioration in overall gearing to more than

1x

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced & highly qualified managerial & technical team**

The Managing Director of the company, Mr. Settipalli Ravi Kumar, has over 38 years of experience in the construction industry. The top management is assisted by experienced team of professionals with considerable experience in the construction industry.

- **Proven project execution capability**

Over the years, the company has successfully completed many projects across the country for various medium to large government companies. In order to manage the projects in a better way and to grow in a balanced way, the company has a policy to take up short to medium term projects (1-2 years) and handle limited number of projects at a time to ensure timely completion. The repeat orders received from its clientele validate its construction capabilities.

- **Reputed clientele**

SCPPL undertakes infrastructure projects for National Highways Authority of India (NHAI), State Road Development Corporations (SRDC) like Andhra Pradesh State Road Development Corporation among others. All the projects are funded under 'The Ministry of Road Transport & Highways (MORTH)' and 'Central Road and Infrastructure Fund (CRIF)'.

- **Healthy order book giving visibility to revenue in the medium term though exposed to geographical/project concentration risks**

The company has a strong order book position comprising nine contracts aggregating to about Rs.1039.50 Crore as on November 30, 2019 which is about 2.08 times of its FY19 construction revenue (i.e., Rs.500.62 crore). The orders are expected to be completed within next one-two years, indicating a satisfactory near to medium term revenue visibility. However, the company has around 79% of road work orders in Andhra Pradesh, funded by the Central Road and Infrastructure Fund (CRIF), GoI. The top five projects of the company also constitute around 53% of the outstanding order book position. Furthermore, the company has a single work order of Rs.196.73 crore which forms approximately 20% in the current order book position with respect to rehabilitation and upgradation of road in Karnataka- Andhra Pradesh Border and thereby signifying geographical/project concentration risks exists.

- **Comfortable capital structure with healthy debt protection metrics**

The overall gearing of the company has improved from 0.89x as on March 31, 2018 to 0.77x as on March 31, 2019 mainly at the back of year-on-year accretion of profit to the net worth

and scheduled repayment of equipment and long-term loans. The company avails equipment loans depending upon requirement for specific project execution. The investment in assets (equipment's) of the company has increased significantly. The equipment's were procured due to major works taken in Andhra Pradesh. The debt protection indicators of the company like interest coverage has improved from 2.91x in FY18 to 3.16x due to lower finance charges in FY19. However, Total Debt/GCA though deteriorated from 2.51 years in FY18 to 2.97 years in FY19 mainly due to lower cash accruals remained comfortable.

Key Rating Weaknesses

- **Susceptibility of profitability to volatile input prices**

Major raw materials used in construction activities are steel and cement which are usually sourced from large players at proximate distances. The input prices are generally volatile and consequently the profitability of the company remains susceptible to fluctuation in input prices. However, presences of escalation clause in most of the contracts provides significant comfort.

- **Decline in revenue and profit margins**

SCPPL's total operating income witnessed an erratic trend over the last three years FY17-FY19; the same improved by 10.76% in FY18 to Rs.554.43 crore on account of higher execution of road projects for government departments in the state of Andhra Pradesh, Arunachal Pradesh, Maharashtra and Karnataka. Further, the same moderated by 9.71% in FY19 to Rs.500.62 crore due to lower order inflow and lower execution of orders. The EBITDA margin of the company has declined from 16.49% in FY18 to 15.20% in FY19 due to increase in overheads as well as increase in sub-contract expenses. Furthermore, the PAT margin of the company declined from 7.26% in FY18 to 6.09% in FY19 mainly on account of decline in absolute EBITDA and higher capital charges.

In H1FY20, SRK reported an EBIDTA of Rs.41.68 crore (Rs.35.60 crore in H1FY19).and PBT of Rs.17.46 crore (Rs.12.89 crore in H1FY19).on a total operating income of Rs.228.32 crore (Rs.215.00 crore in H1FY19).

- **Tender driven nature of business in highly fragmented & competitive nature of the construction sector**

Execution risks for newly awarded projects in a timely manner will be key to achieving growth in revenues and profits. Business certainty is dependent on the firm's ability to successfully bid for the tenders as entire business is tender based.

The domestic infrastructure/construction sector is highly fragmented 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 for the users with respect to quality of output.

- **High working Capital intensity**

Construction business, by its nature, is working capital intensive. The collection period remained high and deteriorated to 146 days in FY19 (112 days in FY18). This is only year-end phenomenon and the collection period has improved in April, 2019 as confirmed by the management. The working capital requirement of the company is mainly funded through credit period availed from its creditors based on its established relationship and bank borrowings. Further, the company has a strategy to take up short-medium duration contracts and optimize the execution time to realize the payments faster in order to manage working capital requirements efficiently. Average utilization of fund based limit of SCPPL is around 97.83% for the last 12 months ended November 30, 2019.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity: Adequate

The Company earned GCA of Rs.52.49 crore in FY19. Further, liquidity position of the company is expected to be adequate as marked by its strong expected cash accruals of Rs.56.42 crore in FY20 compare to its debt repayment of Rs.22.05 crore in FY20. The company has free cash & bank balance of Rs.3.85 crore as on March 31, 2019.

About the Company

SCPPL was promoted by Mr. Settipalli Ravi Kumar in 1982 as a proprietorship concern in Andhra Pradesh to undertake road contract works. The firm was converted into a private limited company in the year 2001. SCPPL focuses on construction projects (roads) for various Government departments. The company operates in Arunachal Pradesh, Telangana, Maharashtra, Andhra Pradesh and Karnataka.

Financials (Standalone):

	(Rs. crore)	
For the year ended* / As On	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	554.43	500.62
EBITDA	91.42	76.07
PAT	40.39	30.68

For the year ended* / As On	31-03-2018	31-03-2019
Total Debt	154.65	155.96
Tangible Net worth	173.07	203.75
EBITDA Margin (%)	16.49	15.20
PAT Margin (%)	7.26	6.09
Overall Gearing Ratio (x)	0.89	0.77

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: ACUIITE has moved the rating of SCPPL into the Issuer Non-Cooperating category as the company did not co-operate in the rating procedure despite repeated follow ups as per the Press Release dated September 27, 2019.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Long Term Fund Based Limits – Cash Credit	Long Term	60.00	IVR BBB/ Stable Outlook	-	-	-
2.	Short Term Non Fund Based Limits- Bank Guarantee	Short Term	237.00	IVR A3	-	-	-

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:

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Ratings Assigned/ Outlook
Long Term fund based limit- Cash Credit	-	-	-	60.00	IVR BBB/ Stable Outlook
Short Term non fund based limit- Bank Guarantee	-	-	-	237.00	IVR A3
Total				297.00	