Press Release

SRK Constructions and Projects Private Limited

March 05, 2021

Ratings

Instrument / Facility	Amount (Rs. Crore)	Ratings	Rating Action
Long Term Bank Facilities – Cash Credit	60.00	IVR BBB (Credit Watch with Developing Implications) (IVR Triple B under Credit watch with developing implications)	Reaffirmed (Under Credit watch with Developing Implications)
Short Term Bank Facilities – Bank Guarantee	237.00	IVR A3 (Credit Watch with Developing Implications) (IVR A Three under Credit watch with developing implications)	Reaffirmed (Under Credit watch with Developing Implications)
Total	**297.00**		

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of SRK Constructions and Projects Private Limited (SCPPL) continues to derive comfort from its experienced promoters and management team, proven project execution capability, reputed clientele with strong order book position indicating a satisfactory near to medium term revenue visibility and its comfortable capital structure. These rating strengths are partially offset due to moderation in its financial performance in FY20, susceptibility of profitability to volatile input prices, tender driven nature of business with intense competition and high working capital intensity.

The ratings remained under credit watch with developing implications due to uncertainty in the performance due to outbreak of COVID19. Infomerics will continue to monitor the developments in this regard and will take a view on the rating once the exact implications of the above on the credit risk profile of the company is clear.

Key Rating Sensitivities:

Upward factors

- Growth in scale of operations with improvement in profitability on a sustained basis
- Sustenance of the capital structure
- Manage working capital requirement efficiently leading to improvement in liquidity

Downward factors

- More than expected moderation in scale of operations and/or profitability impacting the cash accruals and debt protection metrics
- 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 promoters and management 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 mainly bids for tenders floated by various government departments/entities and is mainly engaged in road construction. Further, all the projects are funded under ‘The Ministry of Road Transport & Highways (MORTH)’ and ‘Central Road and Infrastructure Fund (CRIF)’. Moreover, the company also works as a sub-contractor for other contractors. The top five customers cater to almost 36% of total operating income in FY20 indicating a diversified customer profile. Also, customers being government departments like NHAI, PWD and State Road Development Corporations imparts comfort with low counterparty risk.

Strong order book reflecting satisfactory medium-term revenue visibility

The company has a strong unexecuted order book position aggregating to about Rs.1887 Crore as on January 31, 2021 which is about 4.67 times of its FY20 construction revenue (i.e., Rs.404.03 crore). The orders are expected to be completed within next three-four years, indicating a satisfactory near to medium term revenue visibility. However, the order book of the company is majorly skewed towards Maharashtra, Telangana and Andhra Pradesh signifying geographical concentration risk to a certain extent.

Comfortable capital structure

The overall gearing of the company has improved from 0.80x as on March 31, 2019 to 0.61x as on March 31, 2020 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. However, due to decline in profitability, the debt protection metrics though witnessed a marginal moderation in FY20, yet remained comfortable with interest coverage ratio at 2.13x (2.39x in FY19) and total debt to GCA at 3.41x (3.00x in FY19) in FY20.

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.

Moderation in total operating revenue and profitability in FY20

Total operating income witnessed a significant y-o-y decline from Rs.551.58 crore in FY19 to Rs.404.03 crore in FY20 on account of lower execution of orders. The moderation in TOI in FY20 is majorly attributable to the fact that in road infrastructure companies, majority of the revenue is generated in Q4 of a fiscal year, especially during the month of March, which got severely impacted since the operations at the sites had to be completely shut down due to the sudden outbreak of COVID 19 pandemic and ensuing lockdown. As a result, absolute EBITDA also declined from Rs.82.71 crore in FY19 to Rs.72.87 crore in FY20. However, EBITDA margin improved from 15% in FY19 to 18.04% in FY20 on account of cost optimization and execution of high margin contracts. PBT margin declined marginally from 6.38% in FY19 to 5.74% in FY20 on account of decline in absolute EBITDA. Consequently, PAT margin also declined from 6.08% in FY19 to 4.90% in FY20. GCA moderated from

Rs.54.90 crore in FY19 to Rs.40.57 crore in FY20. During 9MFY21, the company achieved a turnover of Rs.218.01 crore (Rs.245.32 crore during 9MFY20) with PAT of Rs.13.37 crore (Rs.13.78 crore during 9MFY20).

Tender driven nature of business in highly fragmented & competitive 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 163 days in FY20 (132 days in FY19). This is only year-end phenomenon, and the collection period has improved in April, 2020 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% for the last 12 months ended January 31, 2021.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Infrastructure Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity - Adequate

The liquidity of the company is expected to remain adequate in the near to medium term with expected sufficient cash accruals vis-à-vis its debt repayment obligations. Overall gearing ratio was comfortable at 0.61x as on March 31, 2020 indicating a sufficient gearing headroom. However, the average CC utilisation for the past twelve months ended January, 2021 remained high at ~97% indicating a limited cushion. The average month end non-fund-based utilisation remained comfortable at ~82% for the past twelve months ended January, 2021. The free cash and cash equivalent balance of the company remained satisfactory at Rs.2.25 crore as on January 31, 2021. The company also had unutilised non-fund-based limit of Rs.75.85 crore as on January 31, 2021.

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	31-03-2019	31-03-2020
	Audited	Audited
Total Operating Income	551.58	404.03
Total Income	558.43	406.57
EBITDA	82.71	72.87
PAT	33.97	19.90
Total Debt	164.66	138.33
Tangible Net worth	207.04	226.94
EBITDA Margin (%)	15.00	18.04
PAT Margin (%)	6.08	4.90
Overall Gearing Ratio (x)	0.80	0.61

**As per Infomerics' Standard*

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years with Infomerics:

Sr. 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.	Cash Credit	Long Term	60.00	IVR BBB (Credit Watch with Developing	IVR BBB / Stable Outlook (January	-	-

Sr. 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
				Implications)	08, 2020)		
2.	Bank Guarantee	Short Term	237.00	IVR A3 (Credit Watch with Developing Implications)	IVR A3 (January 08, 2020)	-	-

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. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facilities – Cash Credit	-	-	-	60.00	IVR BBB (Credit Watch with Developing Implications)
Short Term Bank Facilities – Bank Guarantee	-	-	-	237.00	IVR A3 (Credit Watch with Developing Implications)