



Press Release

SMS Limited

June 3, 2024

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	488.00 (enhanced from 355.05)	IVR A-/ Stable (IVR A minus with Stable outlook)	Reaffirmed/ Assigned	Simple
Short Term Bank Facilities	1131.00 (enhanced from 1044.95 and includes proposed facility of 100.00)	IVR A2+ (IVR A two plus)	Reaffirmed/ Assigned	Simple
Total	1619.00 (Sixteen hundred and nineteen crore only)			

Details of Facilities are in Annexure 1

Detailed Rationale

Infomerics has reaffirmed the ratings assigned to the existing bank facilities and assigned ratings to the enhanced bank facilities of SMS Limited (SMSL) on the back of strength from established track record of operations and experienced management, diversified and reputed client base which reduces counterparty risk to a large extent, healthy order book position, steady increase in the topline and profit in FY23 and FY24 (prov) and Government's thrust on infrastructure. However, the ratings are constrained on account of the company's moderate capital structure and coverage indicators, stretched working capital cycle, high exposure to subsidiaries/group entities and related parties in the form of investment and loans advances and high contingent liability.

Key Rating Sensitivities:

Upward Factors

- Sustained growth in topline with improvement in profitability metrics thereby leading to overall improvement in cash accruals on a sustained basis.
- Improvement in working capital cycle, thus improving the liquidity profile of the company.
- Improvement in capital structure leading to improvement in leverage ratios and coverage indicators.



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- A substantial reduction in the contingent liabilities.

Downward Factors

- Dip in operating income and/or profitability impacting the debt protection metrics.
- Any significant increase in the working capital requirements of the company exerting pressure on the liquidity position of the company.
- Slower-than-expected realization of investments/loans and advances from the subsidiaries or group companies, and/ or further increase in the investments/loans and advances to them.
- Higher-than-expected liability arising out of contingent liabilities
- Any delay in the execution of the order book, leading to the elongation of the working capital cycle.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Established track record of operations and experienced management**

The company has an established presence in the infrastructure sector of nearly six decades. It has experience of successful execution of projects in roads and bridges and specialized projects, including mining, environment, railways, pipelines and bridges among others. Further, it is into designing, engineering and construction of complex and integrated water transmission and distribution projects, water treatment plants, barrages, dams, embankments, elevated and underground reservoirs, construction and upgradation of roads, bridges, flyovers, highways and tunnels among others.

Promoted by one Sancheti family of Nagpur, the promoters and top management has extensive industry experience which has enabled the company to build and maintain long standing relationship with its key clients. The top management consist of highly skilled personnel which has led to secular growth of the organisation. SMSL continues to be a closely held company with the family members of Sancheti family directly having ~78% of the total shareholding, and the remaining stake of ~22% is held by Best Power Plus Private Limited, which in turn is being held by the members of Sancheti family.

- **Diversified and reputed client base which reduces counterparty risk to a large extent**



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The company primarily works for Government agencies such as the NHAI, PWD, MoRTH, Uranium Corporation of India (UCIL), RITES Limited, SouthEastern Coalfields Limited (SECL), Central Railway, Rail Vikas Nigan Limited, Hindustan Copper Limited, ONGC, Vidharbha Irrigation Development Corporation, among others. Since the client base of the company is majorly Government departments, the counterparty risk remains low. The order book is also well diversified with revenue stream across geographies such as Andhra Pradesh, West Bengal, Rajasthan, Maharashtra, Karnataka, Uttar Pradesh, and Chhattisgarh. The company's diversified order book spreads the risk associated with reliance on a single client, segment or geographical market.

- **Healthy order book position**

The company had ~Rs. 9349 crore of work in hand as on March 31, 2024, which translates into ~4x of FY24 (provisional) topline, which significantly enhances its revenue visibility. Further the company is an L1 bidder in projects amounting to nearly Rs. 1700 crore. However, the order book is concentrated in nature since ~72% of the orders comprise projects in the mining segment, and the remaining 28% comprises projects in the roads, railway, irrigation, defence, environment segments. Infomerics notes that the company's ability for successful execution of the current healthy order book in due time will remain a key rating factor, going ahead.

- **Steady increase in the topline and profit in FY23 and FY24 (prov)**

Total operating income increased by 22.05% y-o-y in FY23 to Rs.2170 crore and 5.98% y-o-y to Rs. 2300 crore in FY24 (prov), due to higher execution of projects. Despite an increase in topline in FY23, the company reported EBITDA of Rs. 565.95 crore which declined by 3.40% y-o-y due to increase in lease finance cost and overall increase in input prices along with expiration of one of the toll project in mid of FY23 which carried high margin. In FY24 (prov), EBITDA was 590.47 crore, up by 4.33%. In FY23 PAT increased by 40.65% y-o-y to Rs. 208.45 crore due to decline in depreciation and interest cost. PAT of FY23 included one-time net exceptional loss of Rs. 30.36 crore on account of provision in diminution in value of loans and goodwill written off in its pharmacy business. This exceptional items also included Rs. 79.00 crore of gain on account of reduction in loan liability from Rs. 219 crore to Rs. 140 crore, due to disputes in the second hand equipment which was taken from SREI Equipment Finance Limited in December 2019.



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- **Government's thrust on infrastructure**

The infrastructure sector has seen some major developments, investments and support from the government in the recent past. In the Union Budget for 2024-25, the Indian government has significantly increased the outlay for infrastructure to Rs 11.11 lakh crore. This represents an 11% increase from the previous year's allocation. SMS with long experience in executing projects in civil infrastructure development is likely to be benefitted in near to medium term.

Key Rating Weaknesses

- **Moderate capital structure and coverage indicators**

As on March 31, 2023, the company has unsecured loans from directors of Rs. 38.00 crore which has been treated as quasi equity. The same has increased from Rs. 27.40 crore as on March 31, 2022. Taking the quasi equity into consideration and the loans and advances given to related party of Rs. 620.95 crore as on March 31, 2023, the company's adjusted net worth was Rs. 302.56 crore as on March 31, 2023, up from Rs. 170.58 crore as on March 31, 2022. The increase was due to accretion of profit to reserves. As on March 31, 2023, total debt declined to Rs. 1265.99 crore from Rs. 1502.27 crore as on March 31, 2022, due to scheduled repayment of term loan and decline in unsecured loans. Considering the adjusted net worth of Rs. 302.56 crore as on March 31, 2023, the capital structure ratios, looked stretched with long term debt equity ratio of 3.04 times in FY23, compared with 7.07 times in FY22. TOL/TNW was 6.55 times as on March 31, 2023, compared with 13.15 times as on March 31, 2022. Overall gearing was 4.18 times as on March 31, 2023, compared with 8.81 times as on March 31, 2022. We note that though the leverage ratios have improved from FY22 levels; however they still remain on a higher side due to high loans and investments made in related entities. Debt protection metrics appeared moderate with DSCR of 1.75 in FY23 compared with 1.57 times in FY22 ISCR was 3.39 times in FY23 compared with 3.23 times in FY22, due to decline in EBITDA.

- **Stretched working capital cycle**

The working capital cycle of the company was high at 101 days in FY23 due to EPC nature of business, though the same moderated from 142 days in FY22. The improvement in working capital cycle was due to decline in collection period to 69 days in FY23 from 102 days in FY22. The collection period declined due to higher collection from debtors. The working capital cycle



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also improved due to decline in inventory holding period to 84 days in FY23 from 105 days in FY22. The company got a credit period of 52 days from its supplier in FY23 (65 days in FY22).

- **High exposure to subsidiaries/group entities and related parties in the form of investment and loans advances**

In FY23, SMSL's exposure to related parties in the form of investment and loans advances was high at Rs. 620.95 crore (up from Rs. 574.58 crore in FY22). The company is exposed to risks associated with the timely recoverability of the aforesaid investment and loans advances, and the realization of the same as per the envisaged timelines will be a key rating sensitivity. Also, any further extension of the loans/ advances to group companies/ subsidiaries will be a credit rating metric.

- **High contingent liability**

SMSL, on a consolidated basis, had high contingent liabilities as on 31 March 2023 of Rs.550.31 crore which remained almost at the similar level from Rs. 550.25 crore as on 31 March 2022. A large part of which comprises demands contested by the company with respect to service tax. In addition, there are performance guarantees of Rs. 55.69 which also remained unchanged from Rs. 55.76 crore in FY22. However, in FY24, cases amounting to Rs. 338.13 crore on account of service tax liability and VAT, have been disposed and closed. Thus, the estimated contingent liability as on March 31, 2024 is ~Rs. 268 crore, though it reduced to half from FY23 level, still remains at high levels. Any materialization of these contingent liability might weigh on the company's network.

Analytical Approach: Consolidated

For the purpose of ratings we have considered consolidated financial statements of SMS Ltd. which includes its subsidiaries and joint ventures. This is because these companies, collectively referred to as the SMS Group, are under control of same promoters, have business and financial linkages. The list of Companies is given in Annexure 2.

Applicable Criteria:

[Rating Methodology for Infrastructure Companies](#)

[Financial Ratios & Interpretation \(Non- Financial Sector\)](#)

[Criteria of assigning rating outlook](#)



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[Policy on Default Recognition](#)

[Complexity Level of Rated Instruments/Facilities](#)

Liquidity – Adequate

The liquidity position of the company is expected to remain adequate in the near to medium term with sufficient accruals and to meet the term debt repayment in the period FY25-FY27. The average fund based utilisation for the twelve months ended March 2024 was ~88% indicating limited liquidity. However, the company is estimated to have free cash and bank balance of ~Rs. 57 crore as on March 31, 2024, which provides support to the company's liquidity position.

About the company

Set-up as a proprietorship firm in 1963 (headquartered in Nagpur) by late Mr. Shantikumar M Sancheti, SMSL was incorporated in May 1997 as a closely held company and is currently managed by the younger son of Mr. Shaktikumar Sancheti, Mr. Anand Sancheti, the company's managing director, and other family members.

The company caters to diversified sectors, such as Rail, Road, Irrigation, Operation & Maintenance of Roads and Tolling, Underground Mining & Construction (Coal, Metal & Structures), Environment, which includes sewage treatment plant, effluent treatment plant, bio-medical waste treatment, common hazardous waste treatment Bio-Mining, co-processing, Electrical, Transmission and Distribution Infrastructure, Automated Car Park, Hospitals and Hospitality. The promoters have field experience of nearly 6 decades in execution & completion of various projects.

The company primarily caters to reputed clientele which includes government agencies, such as the NHAI, PWD, Uranium Corporation of India (UCIL), Southeastern Coalfields Limited (SECL) and Indian Railways Construction Company. The company has many subsidiaries/SPVs that operate in these lines.

Financials (Consolidated):

(Rs. crore)

For the year ended* / As on	31-March-22 (Audited)	31-March-23 (Audited)
Total Operating Income	1778.16	2170.22



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EBITDA	585.88	565.95
PAT	148.21	208.45
Total Debt	1502.27	1266.09
Tangible Net-worth	717.76	885.51
Tangible Net-worth (adjusted)	170.58	302.56
EBITDA Margin (%)	32.95	26.08
PAT Margin (%)	8.16	9.39
Overall Gearing Ratio (x)	2.13	1.47
Overall Gearing Ratio (x) (adjusted)	8.81	4.18

**Classification as per Infomerics' standards*

Financials (Standalone):

(Rs. crore)

For the year ended* / As on	31-March-22 (Audited)	31-March-23 (Audited)
Total Operating Income	906.68	1202.13
EBITDA	120.00	148.13
PAT	36.46	70.22
Total Debt	628.65	540.18
Tangible Net-worth	654.84	707.34
Tangible Net-worth (adjusted)	476.72	555.69
EBITDA Margin (%)	13.24	12.32
PAT Margin (%)	3.92	5.66
Overall Gearing Ratio (x)	1.00	0.82
Overall Gearing Ratio (x) (adjusted)	1.32	0.97

**Classification as per Infomerics' standards*

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:



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Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2024-25)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2023-24 (April 4, 2023)	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22
1.	Term Loans	Long Term	228.00	IVR A-/Stable	IVR A-/Stable	-	-
2.	Cash Credit	Long Term	260.00	IVR A-/Stable	IVR A-/Stable	-	-
3.	Letter of Credit	Short Term	15.00	IVR A2+	IVR A2+	-	-
4.	Bank Guarantee*	Short Term	1116.00	IVR A2+	IVR A2+	-	-

*includes proposed bank guarantee of Rs. 100.00 crore

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About Infomerics Ratings:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

For more information visit www.infomerics.com

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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)	Rating Assigned/ Outlook
GECL 1	-	-	FY27	15.70	IVR A-/ Stable
GECL 2	-	-	FY26	8.75	IVR A-/ Stable
GECL 3	-	-	FY28	9.48	IVR A-/ Stable
GECL 4	-	-	FY27	1.56	IVR A-/ Stable
GECL 5	-	-	FY27	1.06	IVR A-/ Stable
Equipment Loan 1	-	-	FY26	29.98	IVR A-/ Stable
Equipment Loan 2	-	-	FY30	50.00	IVR A-/ Stable
Equipment Loan 3	-	-	FY25	0.03	IVR A-/ Stable
Equipment Loan 4	-	-	FY25	0.40	IVR A-/ Stable
Equipment Loan 5	-	-	FY25	0.08	IVR A-/ Stable
Equipment Loan 6	-	-	FY26	0.11	IVR A-/ Stable
Equipment Loan 7	-	-	FY25	0.10	IVR A-/ Stable
Equipment Loan 8	-	-	FY25	0.13	IVR A-/ Stable
Equipment Loan 9	-	-	FY25	0.08	IVR A-/ Stable
Equipment Loan 10	-	-	FY26	0.31	IVR A-/ Stable
Equipment Loan 11	-	-	FY25	0.06	IVR A-/ Stable
Equipment Loan 12	-	-	FY25	0.12	IVR A-/ Stable
Equipment Loan 13	-	-	FY25	0.28	IVR A-/ Stable
Equipment Loan 14	-	-	FY25	0.15	IVR A-/ Stable
Equipment Loan 15	-	-	FY28	5.18	IVR A-/ Stable
Equipment Loan 16	-	-	FY28	2.78	IVR A-/ Stable
Equipment Loan 17	-	-	FY27	1.43	IVR A-/ Stable
Equipment Loan 18	-	-	FY28	0.25	IVR A-/ Stable
Equipment Loan 19	-	-	FY27	0.28	IVR A-/ Stable
Equipment Loan 20	-	-	FY28	3.95	IVR A-/ Stable
Equipment Loan 21	-	-	FY28	0.62	IVR A-/ Stable
Equipment Loan 22	-	-	FY27	2.79	IVR A-/ Stable
Equipment Loan 23	-	-	FY28	7.87	IVR A-/ Stable



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Equipment Loan 24	-	-	FY28	2.20	IVR A-/ Stable
Equipment Loan 25	-	-	FY28	0.39	IVR A-/ Stable
Equipment Loan 26	-	-	FY27	4.78	IVR A-/ Stable
Equipment Loan 27	-	-	FY28	4.75	IVR A-/ Stable
Equipment Loan 28	-	-	FY31	1.25	IVR A-/ Stable
Equipment Loan 29	-	-	FY31	0.56	IVR A-/ Stable
Equipment Loan 30	-	-	FY30	0.28	IVR A-/ Stable
Equipment Loan 31	-	-	FY31	0.48	IVR A-/ Stable
Equipment Loan 32	-	-	FY31	0.49	IVR A-/ Stable
Equipment Loan 33	-	-	FY31	0.24	IVR A-/ Stable
Equipment Loan 34	-	-	FY31	0.32	IVR A-/ Stable
Equipment Loan 35	-	-	FY31	0.44	IVR A-/ Stable
Equipment Loan 36	-	-	FY32	50.00	IVR A-/ Stable
Equipment Loan 37	-	-	FY27	8.13	IVR A-/ Stable
Equipment Loan 38	-	-	FY27	1.99	IVR A-/ Stable
Equipment Loan 39	-	-	FY27	0.77	IVR A-/ Stable
Equipment Loan 40	-	-	FY28	3.63	IVR A-/ Stable
Equipment Loan 41	-	-	FY26	3.46	IVR A-/ Stable
Equipment Loan 42	-	-	FY25	0.09	IVR A-/ Stable
Equipment Loan 43	-	-	FY25	0.22	IVR A-/ Stable
Cash Credit 1	-	-	-	112.66	IVR A-/ Stable
Cash Credit 2	-	-	-	91.00	IVR A-/ Stable
Cash Credit 3	-	-	-	27.74	IVR A-/ Stable
Cash Credit 4	-	-	-	19.94	IVR A-/ Stable
Cash Credit 5	-	-	-	8.66	IVR A-/ Stable
Letter of Credit	-	-	-	15.00	IVR A2+
Bank Guarantee 1	-	-	-	207.00*	IVR A2+
Bank Guarantee 2	-	-	-	225.00	IVR A2+
Bank Guarantee 3	-	-	-	230.00**	IVR A2+
Bank Guarantee 4	-	-	-	164.00***	IVR A2+
Bank Guarantee 5	-	-	-	190.00****	IVR A2+
Proposed Bank Guarantee	-	-	-	100.00	IVR A2+

*LC of Rs.15.00 crore is a sub limit

** LC of Rs.26.00 crore is a sublimit

*** LC of Rs.20.00 crore is a sublimit

****LC of Rs.20.00 crore is a sublimit

Annexure 2: List of companies considered for consolidated analysis:



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Name of the company	Relationship	Shareholding as on March 31, 2023	Consolidation Approach
SMS Envoclean Pvt. Ltd.	Subsidiary	56.02%	Full Consolidation
SMS Infolink Pvt. Ltd.	Subsidiary	100.00%	Full Consolidation
SMS Hazardous Waste Management	Subsidiary	51.00%	Full Consolidation
Spark Mall and Parking Private Limited	Subsidiary	100.00%	Full Consolidation
SMS Taxi Cabs Pvt. Ltd.	Subsidiary	60.00%	Full Consolidation
SMS Vidhyut Pvt. Ltd.	Subsidiary	100.00%	Full Consolidation
SMS Water Grace BMW	Subsidiary	56.03%	Full Consolidation
SMS AABS India Tollways Private Limited	Subsidiary	51.00%	Full Consolidation
SMS Waste Management Pvt. Ltd.	Subsidiary	100.00%	Full Consolidation
PT. SMS Minerals International	Subsidiary	80.00%	Full Consolidation
Ayodhya Gorakhpur SMS Tolls Pvt. Ltd.	Subsidiary	100.00%	Full Consolidation
Maharashtra Enviro Power Ltd.	Subsidiary	92.08%	Full Consolidation
PT SMS Mines Indonesia	Subsidiary	100.00%	Full Consolidation
SMS Mining Limited	Subsidiary	100.00%	Full Consolidation
SMSL Ketki MDO Project Limited	Subsidiary	100.00%	Full Consolidation
Medisearch Life Sciences Private Limited	Subsidiary	100%	Full Consolidation
Kingsway Institute of Health Services Private Limited	Subsidiary	62%	Full Consolidation
SMS Infrastructure Ltd. & D. Thakkar Construction Pvt. Ltd. JV	Joint Venture	70.00%	Part Consolidation
SMS Infrastructure Ltd - Aarti Infra-Projects Pvt. Ltd. J.V.	Joint Venture	51.00%	Part Consolidation
SMS Infrastructure Ltd. Shreenath Enterprises J.V.*	Joint Venture	36.50%	Part Consolidation
Shaktikumar M. Sancheti Ltd. & S N Thakkar Construction Pvt. Ltd. JV	Joint Venture	65.00%	Part Consolidation
GSJ Envo Ltd. In consortion with SMS Infrastructure Ltd. (AOP)	Joint Venture	70.00%	Part Consolidation
SMSIL KTCO (JV)	Joint Venture	50.00%	Part Consolidation
Bhartia SMSIL (JV) *	Joint Venture	49.00%	Part Consolidation
SMSIL-MBPL-BRAPL (JV)	Joint Venture	57.00%	Part Consolidation
GDCL-SMSIL (J.V.)	Joint Venture	40.00%	Part Consolidation
SMSL-SRRCIPL (J V)	Joint Venture	60.00%	Part Consolidation
SRRCIPL-SMSL-BEKEM JV	Joint Venture	20.00%	Part Consolidation
Sanbro Corporation	Joint Venture	26.00%	Part Consolidation
SMSIL-MBPL (JV)	Joint Venture	63.33%	Part Consolidation
SMSL-SAKET (JV)	Joint Venture	40.00%	Part Consolidation



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Meghe SMS Health Sciences Consortium (SPV)	Joint Venture	50.00%	Part Consolidation
AGIPL -SMSL (JV)	Joint Venture	20.00%	Part Consolidation
SRRCIPL - SMSL (JV)	Joint Venture	30.00%	Part Consolidation
SMSL- MBPL JV DURG -Package A	Joint Venture	60.00%	Part Consolidation
SRRCIPL – SMSL (Jv) Mahabubnagar	Joint Venture	20.00%	Part Consolidation

Annexure 3: Facility wise lender details:

<https://www.infomerics.com/admin/prfiles/len-SMSLimited-jun24.pdf>

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

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