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Sai Babuji Projects Private Limited

October 11, 2021

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Ratings	Rating Action
1	Long-Term Bank Facilities	6.25	IVR BB-/ Stable (IVR Double B Minus with Stable Outlook)	Assigned
2	Short-Term Bank Facilities	2.10	IVR A4 (IVR A Four)	Assigned
	Total	8.35 (Rs. Eight crore and Thirty Five lakh only)		

Details of Facilities are in Annexure 1.

Detailed Rationale

The rating assigned to the bank facilities of Sai Babuji Projects Private Limited (SBPPL) considers the close operational and financial linkages between SBPPL and its group company, Balaji Industrial and Agricultural Castings Private Limited (BIAC). Infomerics takes combined view of these entities referred together as Sai Group. The ratings consider the combined entity's longstanding track record under experienced promoters, proven project execution capability, reputed clientele, healthy order book giving revenue visibility in the near to medium term and its comfortable capital structure with satisfactory debt coverage indicators. However, these rating strengths remain partially offset by its small scale of operation with volatility in turnover, susceptibility of profitability to volatile input prices, tender driven nature of the business with presence in a highly competitive industry and working capital intensive nature of its operation.

Key Rating Sensitivities:

Upward Factor:

- Growth in scale of operations with improvement in profitability and cash accruals on a sustained basis and consequent improvement in liquidity
- Sustenance of the capital structure with improvement in debt protection metrics with improvement in interest coverage to over 3x
- Increase in diversification in terms of sector and regional presence



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Downward Factors:

- Moderation in scale of operations and/or profitability impacting the liquidity profile
- Moderation in the capital structure with deterioration in overall gearing to more than 1.5x and/or moderation in debt protection metrics with moderation in interest coverage ratio to below 2x
- Increase in working capital intensity

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Long standing track record under experienced promoters**

Mr. Sreekanth Mallela is at the helm of affairs of the group having over two decades of experience in the similar line of business. Mr. Mallela played a vital role in strategic decision making for Sai Group of Companies. Further, being in civil construction works since 1978, Sai Group, has a considerable experience and a proven track record.

- **Proven project execution capability**

Sai Group has started its operation from 1978 through BIACPL and has successfully completed many projects in and around Telangana for various government and non-government departments. Thus, the group is enjoying a proven track record. Later, the promoters set up SBPPL in 2011 to initiate solar equipment business and water supply projects works separately in government tenders. Both the entities have successfully completed many projects in India and outside of India.

- **Reputed clientele**

Sai group undertakes infrastructure projects for various Government departments of India, African countries and non-government organisations like UNICEF, TexonLtd.-Sri Lanka, Food and Agriculture Organization (FAO). White Nile Petroleum Company etc. All the projects are government funded, thus having minimal risk of defaults.

- **Healthy order book giving visibility to revenue in the medium term**

The Sai group on a combined basis has a strong order book position comprising multiple contracts aggregating to ~Rs.92 Crore as on August 31, 2021, (which is about 2.88 times of



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its FY21 combined revenue) to be executed within next 1-2 years, indicating a satisfactory near to medium term revenue visibility.

- **Comfortable capital structure with satisfactory debt coverage indicators**

The capital structure of the group has remained comfortable as on the past three account closing dates where overall gearing ratio was at 0.79x as on March 31, 2021. Total indebtedness of the group also remained comfortable marked by TOL/TNW at 1.69x as on March 31, 2021. Further, underpinned by its conservative capital structure along with healthy profitability, debt protection metrics of the group also remained satisfactory over the past three fiscals. The interest coverage ratio remained comfortable at 2.67x and Total debt to EBITDA was moderate at 3.69 years in FY21.

Key Rating Weaknesses

- **Small scale of operation with volatility in turnover**

The scale of operation of the group remained small at Rs.32.13 crore in FY21 despite its long track record of operations in highly crowded infrastructure sector. This apart, total net worth of the combined entity was also relatively low at Rs.20.60 crore as on March 31, 2021. Small scale of operations in a highly competitive industry restricts the financial flexibility of the group to an extent. This apart, TOI exhibited erratic movement since last three financial years where TOI declined by ~54% in FY20 over FY19 account of cancellation of few tenders on change in guidelines from ministry of new and renewable energy and delay in execution of works. Whereas the same has improved in FY21 by ~69% driven by higher execution of water supply works.

- **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 remains susceptible to fluctuation in input prices. However, presences of escalation clause in most of the contracts imparts comfort to an extent.

- **Presence in a highly competitive industry and tender driven nature of the business**

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 ability to successfully bid for the tenders as entire business is tender based. Further, the domestic



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infrastructure/construction sector is highly fragmented with presence of many players with varied statures & capabilities.

- **Working capital intensive nature of operation**

Construction business, by its nature, is working capital intensive as a large part of working capital remained blocked in earnest money deposits, margin required for issuance of bank guarantees and retention money. Collection period of the group generally remains long on account of delays in collection of debtors, mainly Government departments. This apart, inventory period also remained high on account of pending work certification during end of financial year as the large amount of work was on hold during last half of FY21 due to pandemic situation in the country.

Analytical Approach: Consolidated. For arriving at the ratings, INFOMERICS analytical team has combined the financials of Sai Babuji Projects Private Limited (SBPPL) and Balaji Industrial and Agricultural Castings Private Limited (BIACPL) as these entities have a common management team under the same promoter and have operational & financial linkages between the entities. The lists of Companies considered are given in **Annexure 2**.

Applicable Criteria:

Rating Methodology for Manufacturing Companies.

Rating Methodology for Infrastructure Companies.

Financial Ratios & Interpretation (Non-financial sector)

Liquidity: Adequate

The liquidity profile of Sai Group is expected to remain adequate marked by its expected satisfactory cash accrual of ~Rs.2.21 crore vis a- vis its low debt repayment obligations of ~Rs.0.81 crore in FY22. Further, the Sai group has no planned capex or availment of long-term debt which imparts comfort. However, the liquidity profile is restricted due to Sai Group's working capital-intensive nature of operations marked by its elongated operating cycle.

About the company&the Group



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Sai Babuji Projects Private Limited (SBPPL) was incorporated in August 2011 by Mr Mallela Sreekanth and Mrs. Bhuvaneshwari Mallela. The company executes manufacturing and trading of solar power equipment such as inverter, solar panels, solar water pumping system, high-density polyethylene pipes, power cables, and fasteners along with fabrication of solar panel. SBPPL provides services like monitoring, integration, security and solar site maintenance during their entire life cycle. It began commercial production from 2014. The company operates in Hyderabad, Tamil Nadu, Andhra Pradesh, Chhattisgarh, and Gujarat.

Balaji Industrial and Agricultural Castings Private Limited (BIACPL) is located at Hyderabad in India and started operation from 1978 as a partnership firm. The company is in various activities like implementation of water supply schemes, fabrication of solar products, construction and execution of community water supply projects and in civil works.

Presently, both the companies are under the common management with strong operational and financial fungibility. Mr. Sreekanth Mallela, who is a director of SBPPL, is also the managing director of BIACPL along with other common director and a group of experienced personnel.

Financials: Combined

(Rs. crore)

For the year ended* / As On	31-03-2020	31-03-2021
	Combined	Combined^
Total Operating Income	18.95	32.13
EBITDA	3.56	4.38
PAT	0.96	1.67
Total Debt	11.53	16.17
Tangible Net worth including quasi equity	18.94	20.60
EBITDA Margin (%)	18.80	13.63
PAT Margin (%)	5.08	5.19
Overall Gearing Ratio (x)	0.61	0.79

*Classification as per Infomerics' standards. ^SBPPL- Audited and BIACPL-Provisional

Financials: Standalone SBPPL

(Rs. crore)

For the year ended* / As On	31-03-2020	31-03-2021
	Audited	Audited
Total Operating Income	5.68	15.35
EBITDA	0.98	1.44
PAT	0.11	0.55
Total Debt	5.15	6.09
Tangible Net worth	7.21	7.76
EBITDA Margin (%)	17.26	9.38
PAT Margin (%)	1.87	3.57



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For the year ended* / As On	31-03-2020	31-03-2021
Overall Gearing Ratio (x)	0.71	0.78

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: The rating was moved to Issuer Not Cooperating category by CRISIL as per PR dated September 22, 2020 due to non-submission of information by the company.

Any other information: NA

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2021-22)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Ratings	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1.	ODBD	Long Term	4.90	IVR BB-/ Stable	-	-	-
2	COVID Sahayata	Long Term	0.38	IVR BB-/ Stable	-	-	-
3	CGECL	Long Term	0.97	IVR BB-/ Stable	-	-	-
4.	BG	Short-Term	2.10	IVR A4	-	-	-

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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.



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Disclaimer: Infomerics ratings are based on information provided by the issuer on an 'as is where is' basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change, suspend or withdraw the credit ratings at any point in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the 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 Fund Based Limits- ODBD	-	-	-	4.90	IVR BB-/ Stable
Long Term Fund Based Limits- COVID Sahayata	-	-	June 2023	0.38	IVR BB-/ Stable
Long Term Fund Based Limits- CGECL	-	-	June 2023	0.97	IVR BB-/ Stable
Short Term Non-Fund Based Limits –BG	-	-	-	2.10	IVR A4

Annexure 2

Name of the Company	Nature of consolidation
Sai Babuji Projects Private Limited	Full consolidation
Balaji Industrial and Agricultural Castings Private Limited	Full consolidation

Annexure 3: Facility wise lender details:

<https://www.infomerics.com/admin/prfiles/len-Sai-Babuji-Projects-Private-ltd.pdf>

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities:

Not Applicable

Annexure 5: Complexity level of the rated Instruments/Facilities

Sr No.	Instrument	Complexity Indicator
1.	ODBD	Simple
2.	COVID Sahayata	Simple
3	CGECL	Simple
4	BG	Simple



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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.

