



Press Release

Shri Swami Samarth Engineers Limited (SSSEL)

July 06, 2022

Ratings

Instrument / Facility	Amount (Rs. Crore)	Ratings	Rating Action	Complexity Indicator
Long Term Fund Based Bank Facilities – Cash Credit	30.00	IVR BBB/Stable (IVR Triple B; Outlook: Stable)	Reaffirmed & Outlook assigned; removed from Credit Watch with Developing Implications	Simple
Short Term Non Fund Based Bank Guarantee	30.00	IVR A3+ (IVR A Three Plus)	Reaffirmed; removed from Credit Watch with Developing Implications	Simple
Total	60.00 (Rupees Sixty Crore Only)			

Details of Facilities are in Annexure 1

Detailed Rationale

The reaffirmation of the ratings assigned to the bank facilities of SSSEL continues to derive strengths from experienced management team coupled with long track record of project execution, growing scale of operations albeit decline in FY21, healthy & improving profit margins, and healthy order book position. Further, the Credit Watch was removed owing to improvement in the market sentiments and overall performance of the company post the COVID-19 pandemic.

The ratings, however, continue to be constrained by moderately leveraged capital structure albeit moderate debt coverage indicators, working capital intensive nature of operations, geographical, segmental & customer concentration risk, and susceptibility of profit margins to stiff competition and volatile input prices.



Press Release

Key Rating Sensitivities:

Upward Factors

- Significant & sustained improvement in the revenues & profitability while maintaining the debt coverage indicators.

Downward Factors

- Any substantial deterioration in the debt coverage indicators or liquidity profile.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced management team and long track record of project execution**

SSSEL possesses a long track record of over 28 years of operations in civil construction activities in the form of EPC of roads and irrigation, viz. concrete roads, drains, footpaths, road dividers, lanes, dams, canals, storage tanks, pipeline distribution networks, barrages, tunnels, K.T. weirs, etc. The promoters of the company are qualified civil engineers possessing a long-standing experience of over more than 2 decades in the field of civil construction. The long-standing experience of the promoters enables the company to bag new orders and to establish long-term relationship with various customers, government authorities, suppliers, sub-contractors and other stakeholders.

- **Growing scale of operations albeit decline in FY21**

The total operating income of SSSEL declined to Rs.90.13 crore in FY21 from Rs.184.31 crore in FY20 owing to the disruptions caused by the COVID-19 pandemic. However, the total operating income increased to Rs.125.14 crore in FY22 (Prov.) owing to execution of new orders as well as existing orders. Moreover, from FY22 onwards, the company has also started providing cane harvest services, wherein the sugarcane harvested by the farmers is cut by way of the machines deployed in the company, and then is delivered to the sugar factories.

- **Healthy & improving profit margins**

The EBITDA margin of SSSEL stood healthy at 17.26% and 20.16% in FY21 and FY22 (FY20: 11.66%). Moreover, the same has been continuously improving over FY20-FY22 owing to different stages of order executions for different orders leading to changes in proportionate



Press Release

consumption costs, coupled with spill-over of orders to subsequent financial years. Moreover, the cane harvesting income in FY22 also contributed majorly to the improvement in the EBITDA margin. Given the healthy EBITDA margin, the PAT margin also stood healthy at 7.08% and 6.45% in FY21 and FY22 respectively (FY20: 5.68%).

- **Healthy order book position**

The order book position of SSSEL stood healthy with 14 open orders worth Rs.1074.03 crore pending for execution as on March 31, 2022 [comprising 9.15 times of the total operating income in FY22]. Hence, the healthy order book position provides medium-term revenue visibility.

Key Rating Weaknesses

- **Moderately leveraged capital structure albeit moderate debt coverage indicators**

The capital structure of SSSEL stood moderately leveraged with an overall gearing of 1.58 times as on March 31, 2021 and March 31, 2022 (Prov.) each (March 31, 2020: 1.19 times). Moreover, the same deteriorated in FY21 & FY22 over FY20 owing to increase in vehicle/equipment loans availed from various banks & NBFCs. Given the increase in the debt levels coupled with decline in the profitability, the debt coverage indicators deteriorated with the total debt/GCA and interest coverage having deteriorated to 5.01 times and 2.59 times respectively in FY21 from 2.56 times and 6.37 times respectively in FY20. However, given the improvement in the profitability, the debt coverage indicators improved with the total debt/GCA and interest coverage having improved to 4.82 times and 3.85 times respectively in FY22, whereas the same continue to remain moderate.

- **Working capital intensive nature of operations**

The operations of SSSEL are working capital intensive in nature with a majority of funds blocked in inventory and debtors. The inventory holding has been continuously elongating from 12 days in FY20 to 37 days and 83 days in FY21 and FY22 respectively owing to increasing proportionate WIP inventory as on the year-end dates, which depends upon different stages of order executions for different orders, and also spill-over of orders to subsequent financial years. Moreover, the collection period also elongated moderately from



Press Release

52 days in FY20 to 67 days in FY21, however improved marginally to 62 days in FY22. On the other hand, the creditors' period stood moderate at 42 days and 24 days in FY21 and FY22 respectively (FY20: 25 days). Given all of the above, the operating cycle has been continuously elongating from 39 days in FY20 to 61 days and 121 days in FY21 and FY22 respectively.

- **Geographical, segmental & customer concentration risk**

The revenues of SSSEL are concentrated in the states of Maharashtra, followed by Karnataka and Manipur. Although majority of the order executions are concentrated on Maharashtra, during FY22, Karnataka comprised 54.82% of the net sales, followed by Maharashtra and Manipur, comprising 38.62% and 6.56% respectively. Moreover, the unexecuted order book also remained concentrated with 51.85% from Maharashtra, followed by 25.98% from Manipur and 22.17% from Karnataka. Furthermore, the top 5 customers comprised 85.11% of the net sales in FY22 as against 91.56% in FY21, thereby implying significant customer concentration risk. However, the company has adequate experience to execute the orders in these states and also, operating in a concentrated geography provides efficient control and reduces the logistical expense.

- **Susceptibility of profit margins to stiff competition and volatile input prices**

SSSEL faces competition from other contractors while bidding and securing construction works. The presence of a tender-based contract awarding system also restricts pricing flexibility of all players in the industry. Major raw materials used in civil construction activities are steel and cement, and those in road construction activities are stone, asphalt/bitumen and sand, which are usually sourced from large players/dealers at proximate distances. The raw material & labour (including sub-contracting) cost forms the majority chunk of the total cost of sales for the last 3-4 years. Since the raw material prices & labour (including sub-contracting) cost are volatile in nature, the profitability of the company is subject to fluctuation in raw material prices & labour (including sub-contracting) cost. However, presence of escalation clause in most of the contracts protect the profit margins to an extent.

Analytical Approach: Standalone



Press Release

Applicable Criteria:

[Rating Methodology for Infrastructure Companies](#)

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

[Criteria of assigning Rating Outlook](#)

Liquidity – Adequate

The liquidity position of SSSEL stood adequate marked by healthy gross cash accruals vis-à-vis debt repayment obligations, low quantum funds blocked in retention money and comfortable current ratio, albeit working capital intensive nature of operations leading to highly utilized working capital limits. Furthermore, the current ratio stood comfortable at 1.73 times as on March 31, 2022 as against 1.70 times as on March 31, 2021. However, given the moderately high inventory holding, the operating cycle stood elongated at 121 days in FY22 as against 61 days in FY21, thereby implying working capital intensive nature of operations. Given this, the average fund-based working capital utilization in the last 12 months ended May 2022 stood high at 91.71%, whereas the free cash & cash equivalents stood low at Rs.0.73 crore as on March 31, 2022 (March 31, 2021: Rs.0.26 crore).

About the Company

Established as a partnership firm in 1994 by the Mane family, Shri Swami Samarth Engineers was later converted into a public limited company in 2019 and renamed as SSSEL. The company is a Class-IA contractor registered with the Government of Maharashtra, and is engaged in civil construction in the form of EPC of roads and irrigation majorly in Maharashtra, followed by Karnataka and Manipur. The clientele of the company comprises National Highway Authority of India (NHAI), Maharashtra State Road Development Corporation Limited (MSRDC), Amravati Irrigation Division, Akola Irrigation Division, National Highways and Infrastructure Development Corporation (NHIDCL), various other irrigation divisions & water supply departments, Pandharpur Municipal Council, Ministry of road Transport & Highways, etc.



Press Release

Financials (Standalone):

(Rs. Crore)

For the year ended / As on	31-Mar-2021 (Audited)	31-Mar-2022 (Provisional)
Total Operating Income	90.13	125.14
EBITDA	15.56	25.23
PAT	6.79	8.14
Total Debt	66.94	78.96
Tangible Net worth	42.31	50.02
EBITDA Margin (%)	17.26	20.16
PAT Margin (%)	7.08	6.45
Overall Gearing Ratio (times)	1.58	1.58

*Classification as per Infomerics standards

Status of non-cooperation with previous CRA:

CARE continues to classify the ratings of the bank facilities of SSSEL in the Issuer Not Co-operating category vide its press release dated May 17, 2022.

BWR continues to classify the ratings of the bank facilities of SSSEL in the Issuer Not Co-operating category vide its press release dated November 2, 2021.

Any other information: None

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2022-23)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2021-22 (April 7, 2021)	Date(s) & Rating(s) assigned in 2020-21 ()	Date(s) & Rating(s) assigned in 2019-20 (January 31, 2020)
1.	Cash Credit	Long Term	30.00	IVR BBB/ Stable	IVR BBB/ CWDI	-	IVR BBB/ Stable
2.	Bank Guarantee	Short Term	30.00	IVR A3+	IVR A3+/ CWDI	-	IVR A3+

Name and Contact Details of the Rating Analyst:

Name: Sonali Ved	Name: Amit Bhuwania
Tel: (022) 62396023	Tel: (022) 62396023
Email: sonali.ved@infomerics.com	Email: abhuanian@infomerics.com



Press Release

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.

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 Bank Cash Credit	NA	NA	Revolving	30.00	IVR BBB/Stable
Short Term Non Fund Based Bank Bank Guarantee	NA	NA	Revolving	30.00	IVR A3+



Press Release

Annexure 2: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/Len-Shri-Swami-Samarth-july22.pdf>

Annexure 3: 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.

