



## Press Release

**Shri Swami Samarth Engineers Limited (SSSEL)**

**March 19, 2024**

### **Ratings**

<b>Facilities</b>	<b>Amount (Rs. crore)</b>	<b>Ratings</b>	<b>Rating Action</b>	<b><u>Complexity Indicator</u></b>
Long Term Fund Based Facilities – Cash Credit	30.00	IVR BBB/ Stable (IVR Triple B with Stable Outlook)	Upgraded and removed from ISSUER NOT COOPERATING CATEGORY	Simple
Short Term Non Fund Based Facilities – Bank Guarantee	30.00	IVR A3+ (IVR A Three Plus)	Upgraded and removed from ISSUER NOT COOPERATING CATEGORY	Simple
<b>Total</b>	<b>60.00 (Rupees sixty crore only)</b>			

**Details of Facilities are in Annexure 1**

### **Detailed Rationale**

The rating upgrade to the bank facilities of SSSEL factors in the Improved scale of operations and comfortable profitability margins, healthy orderbook position, sufficient asset base, improvement in working capital cycle, moderate capital structure and comfortable debt protection metrics. These strengths are underpinned by experienced management team and established track record of operations. Further, the ratings are constrained by geographical & customer concentration risk, susceptibility of profit margins to stiff competition and volatile input prices.

### **Key Rating Sensitivities:**

#### **Upward Factors**

- Substantial & sustained growth in scale of operations with improvement in profitability while maintaining the debt protection metrics & capital structure.

#### **Downward Factors**

- Any decline in revenue and profitability leading to deterioration in debt protection metrics.
- Slowdown in orderbook addition and execution.

### **List of Key Rating Drivers with Detailed Description**



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### **Key Rating Strengths**

#### **Experienced management with established track record of operations**

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. Infomerics believes that 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.

#### **Improved scale of operations**

The company's top line has increased significantly over the last three years because significant number of high-value projects have been successfully completed. This is coupled with the sector diversification, where initially the company mainly focused in executing irrigation projects, now they have stepped into road projects as well. This led to substantial increase in the revenues. The company's revenue improved at a CAGR rate of 105% for the last three years. The revenue improved to Rs. 381.71 crore in FY23 from Rs.127.11 crore in FY22 and Rs. 90.09 crore in FY21. The company generated revenue of Rs. 378.21 crore for 11M FY24.

#### **Comfortable profitability margins albeit fluctuating**

The company's EBIDTA margins typically range from 15% to 18%, depending on the order stage. Since raw materials make up the majority of an order's cost in the beginning, margins are often smaller at this stage of the order life cycle than they are at the end. The Manipur project had higher subcontracting costs than the rest of the project, which caused the margin to fluctuate. As a result, the EBIDTA margin fell from 18.98% in FY22 to 13.91% in FY23. Nevertheless, the operating margin continued to remain adequate.

#### **Healthy orderbook position**



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The company has unexecuted orderbook of Rs. 807.69 crore as on Feb 10, 2024. Of which 80% of the work is expected to complete by FY25 and the rest in FY26. This provides strong revenue visibility over the medium term. In addition, ~Rs.1228 crore is under bidding process. Also, net orderbook is 2.1x times of FY23 revenue. Infomerics believes that the revenue and profitability margins of the company is expected to improve in FY24 & beyond backed by the 11M FY24 performance and healthy orderbook position.

### **Sufficient asset base**

Being in the civil construction sector of the infrastructure department, the company is more dependent on the asset block. The company has done a capex of Rs.76.75 Cr during FY23. Infomerics believes that the asset base would be sufficient to execute the current orders book as well as bid book.

### **Comfortable capital structure and debt protection metrics**

The company's networth improved and stood at Rs. 76.14 crore as on March 31, 2023 as against Rs. 52.41 crore as on March 31, 2022. This includes unsecured loans of Rs. 3.56 crore and Rs. 2.79 crore as on March 31, 2023 and 2022 respectively. Overall gearing improved to 1.32x from 1.43x as on March 31, 2023 and 2022 respectively. TOL/TNW stood at 1.94x from 1.88x as on March 31, 2023 and 2022 respectively. The increase in EBITDA in absolute terms has led to improvement in the debt protection metrics, despite the rise in interest cost owing to increase in debt levels due to capex. Interest coverage ratio stood at 5.94x from 3.30x as on March 31, 2023 and 2022 respectively.

### **Improvement in working capital cycle**

The working capital cycle of the company has improved marked by its improvement in debtor days and inventory days. The company raises monthly billing in road projects. For irrigation projects, it's on milestone basis. In road projects, after completion of month, within 15 days the authorities come for inspection, post that the company raises the bills and realizes 75% of the bill within 72 hours and the rest within a week to 10 days. No retention in the bills. For irrigation projects, the amount is received in 1-2 months period. Debtor days stood at 28 days and 59 days as on March 31, 2023 and 2022 respectively. Inventory days also improved and stood at 33 days and 81 days as on March 31, 2023 and 2022 respectively. This led to



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improvement in operating cycle of the company to 37 days from 91 days as on March 31, 2023 and 2022 respectively.

### **Key Rating Weaknesses**

#### **Geographical and customer concentration risk**

The revenues of SSSEL are concentrated in the states of Maharashtra, followed by Karnataka and Manipur. Order executions are concentrated in Maharashtra at ~64% of the net sales, Karnataka comprised 22% and Manipur comprising 14%. Moreover, the unexecuted order book also remained concentrated with 45% from Karnataka, 37% from Maharashtra, followed by 18% from Manipur. Furthermore, the top 5 customers comprised 95% of the net sales in FY23 as against 85% in FY22, 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.

#### **Project execution risk**

The ability of the company to execute orders in a timely fashion as stipulated in their contract with their customers remains of paramount importance as any delays in execution of contracts can lead to the company having to pay liquidated damages to the opposite party thereby impacting the profitability.

**Analytical Approach:** Standalone



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### **Applicable Criteria:**

Criteria of assigning Rating Outlook

Rating Methodology for Infrastructure Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Complexity level of rated instruments/facilities

Default recognition criteria

### **Liquidity: Adequate**

The liquidity of the company is expected to remain adequate marked by its expected adequate cash accruals against debt repayment obligations in next three years. SSSEL has generated gross cash accruals of Rs. 36.77 crore in FY23 as against the repayment obligation of Rs. 13.17 crore for the same period, and the company is expected to generate cash accruals of around Rs. 48.21 crore in FY24 as against the repayment of Rs. 24.26 crore for the same period. The free cash balance as on March 31, 2023 remains at Rs. 0.84 crore. Current ratio of the company stood at 1.52 times as on March 31, 2023. The average working capital utilisation remained at 65% during the last 12 months period ended January 2024.

### **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.

### **Financials (Standalone):**

(Rs. crore)



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For the year ended / As On*	31-03-2022	31-03-2023
	(Audited)	(Audited)
Total Operating Income	127.11	381.71
EBITDA	24.12	53.10
PAT	7.52	22.82
Total Debt	74.91	100.27
Tangible Net worth	52.41	76.14
<b>Ratios</b>		
EBITDA Margin (%)	18.98	13.91
PAT Margin (%)	5.83	5.97
Overall Gearing Ratio (x)	1.43	1.32

\*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 Cooperating category vide its press release dated May 16, 2023 based on best available information.

BWR continues to classify the ratings of the bank facilities of SSSEL in the Issuer Not Cooperating category vide its press release dated February 2, 2024 based on non-availability of information.

Any other information: Nil

### Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23 (September 26, 2023)	Date(s) & Rating(s) assigned in 2021-22 (July 06, 2022)	Date(s) & Rating(s) assigned in 2020-21 (April 07, 2021)
1.	Long Term Fund Based Facilities – Cash Credit	Long Term	30.00	IVR BBB/Stable	IVR BB+/Negative Issuer not cooperating	IVR BBB/Stable	IVR BBB/CWDI
2.	Short Term Non Fund Based Facilities – Bank Guarantee	Short Term	30.00	IVR A3+	IVR A4+ Issuer not cooperating	IVR A3+	IVR A3+

Name and Contact Details of the Rating Team:





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### About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

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

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

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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
Cash Credit	-	-	-	30.00	IVR BBB/ Stable



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Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. crore)	Rating Assigned/ Outlook
Bank Guarantee	-	-	-	30.00	IVR A3+

**Annexure 2: List of companies considered for consolidated analysis:** Not Applicable

**Annexure 3: Facility wise lender details:**

<https://www.infomerics.com/admin/prfiles/len-SwamiSamarth-mar24.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](http://www.infomerics.com).