



## Press Release

### **Sri Avantika Contractors (I) Limited (SACIL)**

**August 08, 2024**

#### **Ratings**

<b>Instruments / Facility</b>	<b>Amount (Rs. Crore)</b>	<b>Current Ratings</b>	<b>Previous Ratings</b>	<b>Rating Action</b>	<b><u>Complexity Indicator</u></b>
Long Term Facilities	29.47	IVR BBB-/ Stable (IVR Triple B Minus with Stable Outlook)	-	Assigned	Simple
Short Term Facilities	214.00	IVR A3 (IVR A Three)	-	Assigned	Simple
<b>Total</b>	<b>243.47 (Rupees Two Hundred Forty-Three Crore and Forty-Seven Lacs)</b>				

**Details of Facilities/Instruments are in Annexure 1. Facility wise lender details are at Annexure 2. Detailed explanation of covenants is at Annexure 3.**

#### **Detailed Rationale**

The assignment of rating to the bank facilities of Sri Avantika Contractors (I) Limited (SACIL) factors in established track record of operations and reputed clientele, moderate scale of operations and profitability, comfortable debt protection metrics, healthy order book position indicating medium term revenue visibility and government thrust on road infrastructure.

The ratings, however, are constrained by substantial amount of unsecured loans to be paid on demand taken for liquor business, leveraged capital structure, significant exposure in group SPVs/ subsidiaries by way of equity/corporate guarantee, highly fragmented & competitive nature of the tender based construction sector with significant price war, project execution risk and susceptibility of operating margin to volatile input prices.

Stable outlook indicates expected benefits out of long-standing experience of the promoters and healthy unexecuted orderbooks providing revenue visibility for the medium term.



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### Key Rating Sensitivities:

- **Upward Factors**

- Substantial growth in scale of operations with improvement in profitability on a sustained basis and consequent improvement in liquidity.
- Improvement in the capital structure with maintenance of the debt protection metrics.
- Improvement in adjusted gearing ratio to below unity levels.

- **Downward Factors**

- Moderation in scale of operations and/or profitability impacting the liquidity profile on a sustained basis.
- Moderation in the capital structure with further moderation in the overall gearing.
- Any major delays in execution of orders pertaining to EPC contract as well as HAM projects.
- Increase in working capital intensity due to elongation in the operating cycle.
- Any adverse outcome in the Delhi excise policy case which is not in favour of SACIL.

### List of Key Rating Drivers with Detailed Description

#### Key Rating Strengths

##### **Established track record of operations and reputed clientele:**

SACIL benefits from the promoters' experience of over two decades, their strong understanding of market dynamics, and healthy relations with customers and suppliers will continue to benefit the company. SACIL caters to many clients in India ranging across different work segments of engineering, procurement, and execution (EPC) such as building runways, dwelling and irrigation etc. Diversity in geographic reach, business segment and clientele has aided stability in the business risk profile, characterized by steady execution of orders over the years. Awarding of hybrid annuity model (HAM) projects to its group companies from National Highway Authority of India where SACIL acts as the EPC contractor has further added diversity to the revenue profile.



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### **Moderate scale of operations and profitability:**

The total operating income for FY24 (Refers to period April 1st, 2023 to March 31st, 2024) stood at Rs 590.92 crore. The sales of Rs.801.96 crore for FY 2022-23 (Refers to period April 1st, 2022 to March 31st, 2023) includes Rs. 130.39 crore from sale of liquor. The liquor sales are there only for the FY 2021-22 and 2022-23. Liquor business was affected due to restrictions of Covid pertaining to limited opening hours, less no of shops, discounts provided by other competitors etc. There are no liquor revenues after 31st July 2022 as the company has surrendered the licenses and has come out of liquor business. EBITDA margin improved to 10.36% in FY24 from 8.39% in FY23 on account of closure of liquor business where the margin is less. Subsequently PAT margin improved to 4.95% in FY24 from 3.38% in FY23.

### **Comfortable debt protection metrics:**

Debt protection metrics of SACIL stood comfortable marked by interest coverage ratio and DSCR of 4.81x and 1.96x respectively in FY24 though declined marginally from 5.26x and 2.47x respectively in FY23.

### **Healthy order book position indicating medium term revenue visibility:**

The company has a healthy unexecuted order book worth INR 1672 crore to be executed as of 30<sup>th</sup> Apr 2024 which provides healthy revenue visibility over the medium term. This constitutes 2.82 times of FY24 revenue. SACIL has irrigation projects of ~Rs 976 crore and other projects of ~Rs 696 crore to be executed as of 30<sup>th</sup> Apr 2024. The order book is concentrated in the state of Rajasthan followed by Kerala and other states.

### **Government thrust on road infrastructure:**

India has the one of largest road networks across the world, spanning over a total of 5.5 million km with gradual increase in road transportation over the years attributable to improvement in connectivity between cities, towns and villages in the country. The government, through a series of initiatives, is working on policies to attract significant investor interest. SACIL being mainly in road construction likely to be benefitted in near to medium term in the increased thrust of the government in developing the road infrastructure.



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### **Key Rating Constraints**

#### **Substantial amount of unsecured loans to be paid on demand taken for liquor business:**

In FY22, Sri Avantika applied for liquor license in Delhi Zone and had taken unsecured loan from two corporates viz. Axis Clinicals Ltd and Auro Realty Pvt Ltd to the tune of Rs 142.00 crore. As per the news reports, the enforcement directorate has alleged that SACIL and other entities were used as a vehicle by the promoters of Axis Clinicals and Auro Realty to hold the liquor licenses. However, liquor business was affected due to restrictions of Covid pertaining to limited opening hours, less no. of shops, discounts provided by other competitors etc. The company has surrendered the licenses and has come out of liquor business by July'22. The company has repaid Rs 37.22 crore in the last 2 years and currently the outstanding amount is Rs 109.61 crore as on 31<sup>st</sup> Mar 2024. The company has also made several claims pertaining to Delhi liquor business before the Concerned Hon'ble High Court of New Delhi for an amount of Rs.176.91 crore. Out of the above claims, company has written off Rs 53.07 crore and Rs 35.38 crore respectively in FY23 and FY24 and the balance Rs 88.46 crore is under other non-current assets as on 31<sup>st</sup> Mar 2024.

#### **Leveraged capital structure:**

SACIL's capital structure remained leveraged marked by gearing of 6.64x as on March 31<sup>st</sup>, 2024 (6.66x as on March 31<sup>st</sup>, 2023) and TOL/ TNW of 9.27x as on March 31<sup>st</sup>, 2024 (9.45x). Total debt includes corporate guarantees of Rs 521.00 crore as on March 31<sup>st</sup>, 2024, extended by SACIL to its group companies i.e. Jangareddygudem Projects Private Limited of Rs. 235.00 crore and Rajamahendravaram Greenfield Highway Private Limited of Rs. 286.00 crore. The equity investments made by SACIL in its existing subsidiaries, SPVs & group companies have been factored in the calculation of TNW.

#### **Significant exposure in group SPVs/ subsidiaries by way of equity/corporate guarantee:**

SACIL has significant exposure in its group SPVs/ subsidiaries in the form of Equity and has further commitments of Rs 46.38 crore in FY25. Going forward, timely infusion of equity and timely execution of these under-construction projects, without any cost overruns would be key monitorable. It has also provided unconditional and irrevocable Corporate Guarantees (CG) for 2 of its SPVs which amounted to Rs. 521.00 crore as on March 31<sup>st</sup>, 2024.



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### **Highly fragmented & competitive nature of the tender based construction sector with significant price war:**

The domestic construction sector is highly crowded with presence of many players with varied statures & capabilities. Boom in the infrastructure sector, a few years back, resulted in mushrooming 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 sustenance and healthy growth of the industry.

### **Project execution risk:**

The value of a project is measured by the ability of the entity to complete any project in a timely manner and in compliance of all committed specifications. Any delays in project execution can have a negative impact on collections from customers and salability of projects, which can lead to constrained liquidity. The project costs are dependent on a variety of variables such as the nature of the terrain, environmental clearances, and other externalities. Infrastructure companies also face challenges relating to shortage of labour, equipment and availability of key raw materials on time. Weather, labour problems and difficulty in terrain may lead to construction delays and cost escalations.

### **Susceptibility of operating margin to volatile input prices:**

Major raw materials used in civil construction activities are steel & cement and in road construction activities are stone, steel, cement, and sand which are usually sourced from large players/dealers at proximate distances. The raw material & labour costs form the majority chunk of the total cost of sales. As the raw material prices & labour cost are volatile in nature, the profitability of the company is subject to fluctuation in raw material prices & labour costs.

**Analytical Approach:** Standalone (However, factors in the investments, supports, Corporate Guarantees provided to existing subsidiaries, SPVs & group companies. Furthermore, also factors in balance equity commitment for ongoing HAM projects.)

### **Applicable Criteria:**

[Rating Methodology for Infrastructure Companies](#)



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[Criteria on assigning rating outlook](#)

[Policy on Default Recognition and Post-Default Curing Period](#)

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

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

### Liquidity: Adequate

The current ratio of the company remains comfortable at 1.83x as on March 31<sup>st</sup>, 2024. The company's cash flow from operation also remains adequate. The liquidity of the company is expected to remain adequate in the near to medium term in view of sufficient cash accruals in comparison to debt repayment. GCA stood at Rs 36.28 crore in FY24 and is expected to be at Rs 38.50 crore in FY25. The company has cash & bank balances of Rs 7.36 crore as on March 31<sup>st</sup>, 2024. The average working capital utilisation of the company stood low at 50.38% for twelve months ended May 2024. However, operating cycle remained elongated at 155 days in FY24 (FY23: 128 days) on account of stretched debtor's days of 153 days (FY23: 110 days). However, liquidity profile shall remain key monitorable on account of any demand which may arise from lenders for repayment of unsecured loans availed for liquor business.

### About the Company

Sri Avantika Contractors (I) Limited (SACIL), incorporated in 2005, is engaged in execution of various projects - hydro power projects, thermal power projects-civil works, solar power projects, heavy construction, massive earth and rock excavation for irrigation, power projects, housing complexes, building projects, irrigation structures such as canals, earth and concrete dams, tunnels, lift irrigation, distributary network, airports, infrastructure and pharma projects etc. It has 3 subsidiaries and 4 associates. It has also various Joint Ventures with pioneers in the industry to focus on domestic and international projects. Mr. Narendra Reddy is the managing director.

### Financials (Standalone):

Rs. Crores

For the year ended* / As on	31-03-2023	31-03-2024
	Audited	Audited



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Total Operating Income	834.48	590.92
EBITDA	69.99	61.22
PAT	28.23	29.24
Total Debt	727.46	711.52
Tangible Net worth	109.27	107.14
EBIDTA Margin (%)	8.39	10.36
PAT Margin (%)	3.38	4.95
Overall Gearing ratio (X)	6.66	6.64
Interest Coverage (X)	5.26	4.81

*\*Classification as per Infomerics' standards*

**Status of non-cooperation with previous CRA:** CRISIL ratings has classified the rating as ISSUER NOT COOPERATING category vide PR dated June 24<sup>th</sup>, 2024 on account of non-availability of information and lack of cooperation from the client.

**Any other information:** N.A.

**Rating History for last 3 years:**

Sr. No.	Name of Facilities	Current Ratings (Year 2024-25)			Rating History for the past 3 years		
		Type	Amount outstanding /Proposed (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2023-24	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22
					Date (Month XX, 20XX)	Date (Month XX, 20XX)	Date (Month XX, 20XX)
1.	Covid Loan – Term Loan	Long Term	3.37	IVR BBB-/ Stable	-	-	-
2.	Cash Credit	Long Term	26.10	IVR BBB-/ Stable	-	-	-
3.	Bank Guarantee	Short Term	214.00	IVR A3			



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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.

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### Annexure 1: Details of Facilities:

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (INR Crore)	Rating Assigned/ Outlook
Covid Loan-Term Loan	-	-	2028	3.37	IVR BBB-/ Stable
Cash Credit	-	-	-	26.10	IVR BBB-/ Stable
Bank Guarantee	-	-	-	214.00	IVR A3

### Annexure 2: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/len-SriAvantika-aug24.pdf>

Annexure 3: Detailed explanation of covenants of the rated facilities: Not Applicable

Annexure 4: List of companies considered for consolidated/combined analysis: 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)