



Press Release

Sudharma Infratech Private Limited (SIPL)

January 15, 2021

Ratings

| Facilities | Amount (Rs. crore) | Ratings | Rating Action |
|---|--|---|---|
| Long Term Fund Based Facility - Cash Credit | 8.00 | IVR BBB-/ Credit Watch with Developing Implications (IVR Triple B Minus; Credit Watch with Developing Implications) | Reaffirmed under credit watch with developing implications |
| Short Term Non Fund Based Facilities – Bank Guarantee | 16.25 | IVR A3; Credit Watch with Developing Implications (IVR Single A Three; Credit Watch with Developing Implications) | Reaffirmed under credit watch with developing implications |
| Total | 24.25 (Twenty Four Crore and Twenty Five Lakhs) | | |

Details of Facilities are in Annexure I

Detailed Rationale

The reaffirmation of ratings assigned to the bank facilities of Sudharma Infratech Private Limited (SIPL) continues to derive strength from experienced promoters and long track record of operation, reputed clientele base, strong order book, improvement in financial performance, comfortable and improving capital structure and debt protection metrics. However, these rating strengths continue to remain partially offset by customer concentration risk, SIPL's presence in highly fragmented & competitive nature of the construction sector with significant price war along with expected decline in the top line during FY21.

The ratings were placed under credit watch with developing implications owing to uncertainty in the operating scenario of the company and expected moderation in SIPL's financial performance in FY21 due to impact of COVID-19 induced lockdown and consequent problems in contract execution. Infomerics will continue to monitor the developments in this regard and will take a view on the ratings once the exact implications of the above on the credit risk profile of the company are clear.

Key Rating Sensitivities

Upward rating factor(s) –



Press Release

- Increase in order book and timely execution of the same leading to growth in scale of operations with improvement in profitability and debt protection metrics
- Sustenance of the capital structure
- Improvement in liquidity position

Downward rating factor(s) –

- More than expected moderation in scale of operations and/or moderation in profitability impacting debt protection metrics
- Moderation in the capital structure with moderation in overall gearing to over 1.5x
- Moderation in liquidity position marked by elongation in operating cycle

Key Rating Drivers with detailed description

Key Rating Strengths

Experienced promoters and long track record of operation

SIPL has established operational track record of more than a decade in construction of various civil infrastructure, roads and bridges. Mr. R.V. Sudhakar (Managing Director), is a first-generation entrepreneur having three decades of experience in the construction sector. The extensive experience of the promoter and successful track record of operation has helped the company in acquiring customers. The directors are well supported by a team of experienced and qualified professionals.

Reputed clientele base

The company caters to both government as well as private entities and has generated repeat orders from them. Further there is new addition to the customer base which in turn increases its scale of operation. At present, the company has orders from Ministry of Road Transport & Highways, Trichy Tollway Private Limited and Ashoka Buildcon Limited amongst many others.

Strong order book

Over the past years, the company has successfully completed many projects across Andhra Pradesh and Telangana. The company has completed many major as well as minor projects and has orders in hand of around INR 589.55 crore (Previous Year INR 485.47 crore) and an unexecuted order book of around INR 287.54 crore to be executed by March 2022.

Improvement in financial performance



Press Release

SIPL's total operating income increased from INR 20.74 crore in FY18 to INR 111.91 crore in FY19 and further to INR 154.89 crore in FY20 mainly driven by increased order inflow and higher execution of orders. As a result, the EBITDA margin increased from 11.63% in FY19 to 12.50% in FY20. The PAT margin improved from 2.54% in FY18 to 5.02% in FY20, due to higher operating income and proportionately lower depreciation.

Comfortable and improving capital structure and debt protection metrics

The capital structure of SIPL were comfortable with an overall gearing of 0.72x (Previous Year: 1.12x) and long term debt equity ratio of 0.47x (Previous Year: 0.79) as on March 31, 2020. The total debt to gross cash accruals stood comfortable at 1.91x at the end of FY20 as compared to that of 3.47x at the end of FY19. The company further estimates an improvement in its capital structure with expected improvement in its leverage ratios as on March 31, 2021.

Key Rating Weaknesses

Customer concentration risk

The present order book contains rehabilitation, up-gradation and repair of road construction in Tamil Nadu and Andhra Pradesh. However, top 5 customers account for almost 96.29% of total operating income in FY20 indicating a concentrated customer profile. Nonetheless, the company has adequate experience in order to execute projects in these states which provides a comfort.

Highly fragmented & competitive nature of the construction sector with significant price war

The domestic infrastructure/construction sector is highly crowded with presence of many players with varied statures & capabilities. The boom in the infrastructure sector, a few years back resulted in an 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 users with respect to quality of output.

Expected decline in topline during FY21

The company's total operating income is expected to decline from INR 154.89 crore mainly because of the COVID – 19 pandemic induced lockdown resulting in a huge shortage of materials, manpower and resources in the state of Andhra Pradesh. With decline in TOI and increase in operating expenses the profit levels of the company are also expected to decline in FY21. However, substantial work has resumed since Q3FY2021 and the company has projected to achieve its estimated targets.



Press Release

Analytical Approach: Standalone Approach

Applicable Criteria

Rating Methodology for Infrastructure Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity – Adequate

The company has been able to generate a comfortable level of gross cash accruals (GCA) in FY20 of INR 13.57 crore. The liquidity of the company is expected to remain satisfactory in the near to medium term in absence of any significant term debt repayment. Thus, the overall liquidity position of the company is expected to remain **Adequate** in the near term. However, the liquidity is dependent on successful completion of projects and speedy realisation of contract proceeds.

About The Company

Sudharma Infratech Private Limited (SIPL) was incorporated in 2008 in Andhra Pradesh, the company is promoted by Mr. R.V. Sudhakar who is the managing director. SIPL is engaged in contract-based construction and renovation of roads and highways from various Government bodies of Andhra Pradesh.

Financials Standalone:

(INR Crore)

| For the year ended* / As on | 31-03-2019 | 31-03-2020 |
|---------------------------------|------------|------------|
| | (Audited) | (Audited) |
| Total Operating Income | 111.91 | 154.89 |
| EBITDA | 13.01 | 19.36 |
| PAT | 5.88 | 7.78 |
| Total Debt | 31.51 | 25.86 |
| Tangible Net worth (Book Value) | 19.16 | 26.31 |
| EBIDTA Margin (%) | 11.63 | 12.50 |
| PAT Margin (%) | 5.25 | 5.02 |
| Overall Gearing Ratio (x) | 1.12 | 0.72 |

* Classification as per Infomerics' standards

Status of non-cooperation with previous CRA:

CARE Ratings vide its press release dated December 21, 2020 has moved the rating of Sudharma Infratech Private Limited to "Issuer Not Cooperating" category due to non-submission of information.



Press Release

ICRA in its press release dated January 14, 2020 has reaffirmed the rating of Sudharma Infratech Private Limited in "Issuer Not Cooperating" category due to non-submission of information.

Any other information: N.A.

Rating History for last three years:

| Sr. No. | Name of Facilities | Current Rating (Year 2020-21) | | | Rating History for the past 3 years | | |
|---------|---|-------------------------------|--------------------|---|--|---|---|
| | | Type | Amount (Rs. Crore) | Ratings | Date(s) & Rating(s) assigned in 2019-20 (7.11.19) | Date(s) & Rating(s) assigned in 2018-19 | Date(s) & Rating(s) assigned in 2017-18 |
| 1. | Long Term Fund Based Facility - Cash Credit | Long Term | 8.00 | IVR BBB-/ Credit Watch with Developing Implications (IVR Triple B Minus; Credit Watch with Developing Implications) | IVR BBB-/Stable Outlook (IVR Triple B minus with Stable Outlook) | - | - |
| 2. | Short Term Non Fund Based Facilities – Bank Guarantee | Short Term | 16.25 | IVR A3; Credit Watch with Developing Implications (IVR Single A Three; Credit Watch with Developing Implications) | IVR A3 (IVR Single A Three) | - | - |

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.

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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. Company's



Press Release

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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Annexure I: Details of Facilities

| Name of Facility | Date of Issuance | Coupon Rate/ IRR | Maturity Date | Size of Facility (INR Crore) | Rating Assigned/ Outlook |
|---|------------------|------------------|---------------|------------------------------|---|
| Long Term Fund Based Facility - Cash Credit | -- | - | - | 8.00 | IVR BBB-/ Credit Watch with Developing Implications (IVR Triple B Minus; Credit Watch with Developing Implications) |
| Short Term Non Fund Based Facilities – Inland/Import Letter of Credit | - | - | - | 16.25 | IVR A3; Credit Watch with Developing Implications (IVR Single A Three; Credit Watch with Developing Implications) |