



Press Release

Shrushti Contech Private Limited (SCPL)

August 10, 2021

Ratings:

(INR Crore)

Instrument / Facility	Amount	Ratings	Rating Action
Long Term Bank Facilities - Cash Credit	15.00 (Reduced from 19.00)	IVR BBB-/Credit watch with developing implications (IVR Triple B Minus with Credit watch with developing implications)	Reaffirmed & Placed under Credit Watch with Developing Implications
Long Term Bank Facilities - Secured Overdraft Loan	5.00	IVR BBB-/Credit watch with developing implications (IVR Triple B Minus with Credit watch with developing implications)	Assigned
Short Term Bank Facilities - Letter of Credit	5.00	IVR A3 (IVR A Three)	Reaffirmed & Placed under Credit Watch with Developing Implications
Long Term /Short Term Bank Facilities - Bank Guarantee	35.64 (Increased from 33.61)	IVR BBB-/Credit watch with developing implications; IVR A3 (IVR Triple B Minus with Credit watch with developing implications; IVR A Three)	Reaffirmed & Placed under Credit Watch with Developing Implications
Proposed Long Term Bank Facilities - Cash Credit	5.00 (Reduced from 10.00)	IVR BBB-/Credit watch with developing implications (IVR Triple B Minus with Credit watch with developing implications)	Reaffirmed & Placed under Credit Watch with Developing Implications
Proposed Long Term / Short Term Bank Facilities – Bank Guarantee	26.97 (Increased from 25.00)	IVR BBB-/Credit watch with developing implications; IVR A3 (IVR Triple B Minus with Credit watch with developing implications; IVR A Three)	Reaffirmed & Placed under Credit Watch with Developing Implications
Total	92.61		

Details of Facilities are in Annexure 1

Detailed Rationale:

The affirmation of the ratings assigned to the bank facilities of SCPL continue to derive strength from its experienced promoters & management team, proven project execution capability, reputed client base, strategic partnerships, y-o-y improvement in EBITDA margin, healthy order book and moderate capital structure and debt protection parameters. However, the rating strengths are partially offset by degrowth in revenues during FY21; expected to improve in the short run, elongated working capital cycle, highly fragmented and competitive



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nature of the sector with significant price war and susceptibility of operating margin to volatile input prices.

The Credit watch with developing implications reflects headwinds arising out of ongoing global Covid-19 pandemic.

Key Rating Sensitivities:

Upward Factors:

- Substantial and sustained improvement in revenue & profitability leading to overall improvement in debt protection metrics.

Downward Factors:

- Any decline in revenue and profitability leading to deterioration of the debt protection metrics and/or deterioration in gross working capital cycle.

Key Rating Drivers with detailed description

Key Rating Strengths:

Experienced promoters & management team

SCPL was established as a partnership firm in 2005 and later constituted as private limited company in 2013. The company is promoted by Jampala Rajasekhara Reddy along with other directors, Jampala Madhusudhan Reddy, Jampala Prasanna Lakshmi and Jampala Sujatha Reddy who possess experience of around two decades in civil construction industry. The extensive experience has enabled the company forge healthy relationships with customers and suppliers. The promoters are supported by a team of experienced and qualified professionals.

Proven project execution capability

Over the past years, the group has successfully completed many projects in the states of Andhra Pradesh, Telangana, Maharashtra, Karnataka and Odisha. The repeat orders received from its clientele and entering the Joint ventures with reputed players in the industry validate its execution capabilities.

Reputed client base:

Long presence of the promoters in the industry has helped the group in developing long standing relationships with various intermediaries in the value chain. The group is mainly engaged in electrical and civil projects and mainly bids for tenders floated by world bank and Asian development banks and. Moreover, the company also works as a sub-contractor.

Strategic Partnerships:



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Company has recently completed the GIS (Gas Insulated Substations) project of around INR 170 Crore which is received from Odisha Power Transmission Corporation Limited. Company is confident of receiving further orders in this domain due to its advantages over AIS (Air Insulated Substations) There are only a few big players in this segment. Company has MOUs also in place with Tech Mahindra, IBM & Netico Solutions from Spain for SMART City projects. It has also entered an arrangement with IBM India Private Limited for technical collaboration for implementing SMART GRID Programme for DISCOMS i.e. Distribution Companies in the state of Andhra Pradesh and Telangana. The company has also entered into an agreement with Efcon India Private Limited for implementing energy efficiency street lighting.

Y-o-Y Improvement in EBITDA margin:

The group's EBITDA margins improved to 12.52% in FY21 (Provisional) as compared to 9.96% in FY20. However, in absolute terms there was a decline in the EBITDA to INR 11.60 Crore in FY21 against INR 15.83 Crore in FY20. The improvement in EBITDA margin is mainly attributed to type of project executed and various cost cutting measures implemented during the period.

Healthy order book:

The group has a healthy unexecuted order book of INR 257.41 Crore as on 28th July 2021 with orders across 18 contracts which is about 2.77 times of its FY21 revenue. Majority of the orders are expected to be completed by 1H FY23, indicating a satisfactory near to medium term revenue visibility.

Moderate capital structure and debt protection metrics:

The capital structure of the group remained moderate with overall gearing and long debt-equity of 0.56x and 0.12x as on 31st March 2021 compared 0.66x and 0.21x as on 31 March 2020 respectively. The financial risk profile of the group is moderate marked by moderate net worth, debt protection metrics and debt coverage indicators. The adjusted net worth of company stood at INR 64.04 Crore as on 31 March 2021 (FY20: INR 58.62 Crore). Interest coverage ratio stood at 2.52x in FY21 (2.72x). Total debt declined to INR 35.59 Crore in FY21 (FY20: INR 38.68 Crore). Total Debt / GCA ratio was at 6.48 times in FY2021. Total debt/GCA, interest coverage & other debt protection metrics are expected to remain moderate moving forward.

Key Rating Weaknesses:

Degrowth in revenues during FY21; expected to improve in the short run:



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The group's total operating income decline to INR 92.65 Crore in FY21 from INR 158.87 Crore in FY20. The Decline was mainly due to COVID-19 led lockdown as completion period for few projects has been extended. Furthermore, the group had also not participated in tenders for any new projects. However, overall performance is expected to improve in FY22 as the company have a healthy order book to execute.

Elongated Working capital:

The operations of group are working capital intensive as a large amount of working capital remains blocked in earnest money deposits and retention money, Average working capital cycle elongated to 176 days from 112 days on account delay in receivables. Furthermore, majority of its construction works and consequent billings are skewed towards last two quarters (almost ~30-40% of sales are booked in the last quarter on an average) which led to high debtors outstanding as on the last date of the financial year (payments are generally been received in 1st quarter of the next fiscal) and resulted in high average collection period. Further, the company's creditor's period is also high as it tries to match the payments of its suppliers and sub-contractors with its receipt of payments from debtors. The inventory days remains high as the company also keeps the stock of PSCC poles.

Highly fragmented and competitive nature of the sector with significant price war:

The domestic infrastructure/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 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 concern as the same can dent the margins.

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, asphalt/bitumen and sand which are usually sourced from large players/dealers at proximate distances. The raw material & labour (including subcontracting) cost forms the majority chunk of the total cost of sales for the last three years. As 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, presences of escalation clause in most of the contracts protect the margin to an extent.

Analytical Approach: Consolidated



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For arriving at the rating, Infomerics has combined the business and financial risk profiles of 2 companies Shrushti Contech Private Limited (SCPL) and Sun Shrushti Private Limited (SSPL) moving forward referred as a Shrushti group, as they are in the same lines of business under a common management and have financial linkages & legal linkages as Sun Shrushti Private Limited (SSPL) is the subsidiary of Shrushti Contech Private Limited (SCPL). SCPL has a 90.90% stake in SSPL.

Applicable Criteria:

Rating Methodology for Infrastructure Companies.

Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity – Adequate

The company has an adequate liquidity profile with absence of any long-term repayment obligations and major capex plans. Further, the company had gross cash accruals of INR. 5.49 Crore in FY21. The overall utilisation of the limits (fund based + non-fund based) remains moderate during the last 12 months ended 31st May 2021. The current ratio stood at 1.29 times as on 31st March 2021. Cash and bank balance amounted to INR 1.06 Crores as on 31st March 2021.

About the Company:

Established as a firm under the name Shrushti Con Tech ('SCT', 'the firm') in 2002 by a team of engineers and economists. It reconstituted as a private limited company in June 2013. The company is based out of Hyderabad and is into execution of EPC works. It is also into the manufacturing of pre-stressed concrete poles (PSCC) with an installed capacity of 1,90,800 poles per annum.

Sun Shrushti Private Limited (SSPL) is the subsidiary of SCPL with an aim to provide sustainable, innovative, and cost-effective solutions across the entire Solar Power Value Chain.

Financials: Consolidated

(INR Crore)

For the year ended/ As On	31-03-2020 (Audited)	31-03-2021 (Provisional)
Total Operating Income	158.87	92.65
EBITDA	15.83	11.60
PAT	7.12	4.79
Total Debt	38.68	35.59
Tangible Net-worth	36.03	40.77
Ratios		
EBITDA Margin (%)	9.96	12.52



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PAT Margin (%)	4.47	5.16
Overall Gearing Ratio (x)	0.66	0.56

Financials: Standalone (Shrushti Contech Private Limited)

(INR Crore)

For the year ended/ As On	31-03-2020 (Audited)	31-03-2021 (Provisional)
Total Operating Income	140.28	90.83
EBITDA	15.15	11.53
PAT	6.63	4.75
Total Debt	27.32	32.72
Tangible Net-worth	34.72	39.47
Ratios		
EBITDA Margin (%)	10.80	12.69
PAT Margin (%)	4.71	5.22
Overall Gearing Ratio (x)	0.48	0.52

Status of non-cooperation with previous CRA:

ACUTE vide its press release dated 01st June 2021 has continued to classify the case under Issuer Not Co-operating category on account of non-submission of relevant information.

Any other information: NA

Rating History for last three years:

Sr. No.	Name of Instrument/ Facilities	Current Ratings (Year 2021-22)			Rating History for the past 3 years		
		Type	Amount outstanding (INR Crore)	Rating	Date(s) & Rating(s) assigned in 2020-21 (May/11/20)	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1.	Long Term Bank Facilities – Cash Credit	Long Term	15.00	IVR BBB-/ Credit watch with developing implications	IVR BBB-/Stable	--	--
2.	Long Term Bank Facilities – Secured Overdraft Loan	Long Term	5.00	IVR BBB-/ Credit watch with developing implications	--	--	--
3.	Short Term Bank Facilities – Letter of Credit	Short Term	5.00	IVR A3	IVR A3	--	--
4.	Long Term /Short Term Bank Facilities – Bank	Long Term / Short Term	35.64	IVR BBB-/ Credit watch with developing	IVR BBB-/Stable; IVR A3	--	--



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	Guarantee			implications; IVR A3			
5.	Proposed Long Term Bank Facilities – Cash Credit	Long Term	5.00	IVR BBB-/Credit watch with developing implications	IVR BBB-/Stable	--	--
6.	Proposed Long Term/Short Term Bank Facilities – Bank Guarantee	Long Term / Short Term	26.97	IVR BBB-/Credit watch with developing implications; IVR A3	IVR BBB-/Stable; IVR A3	--	--

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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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Annexure 1: Details of Facilities:

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (INR Crore)	Rating Assigned/ Outlook
Long Term Bank Facilities – Cash Credit/SOD	--	--	--	15.00	IVR BBB-/Credit watch with developing implications
Long Term Bank Facilities – Secured Overdraft Loan	--	--	Revolving	5.00	IVR BBB-/Credit watch with developing implications
Short Term Bank Facilities – Letter of Credit	--	--	--	5.00	IVR A3
Long Term /Short Term Bank Facilities – Bank Guarantee	--	--	--	35.64	IVR BBB-/Credit watch with developing implications; IVR A3
Proposed Long Term Bank Facilities – Cash Credit	--	--	--	5.00	IVR BBB-/Credit watch with developing implications
Proposed Long Term / Short Term Bank Facilities – Bank Guarantee	--	--	--	26.97	IVR BBB-/Credit watch with developing implications; IVR A3

Annexure 2: List of companies considered for consolidated analysis:

Shrushti Contech Private Limited	Consolidation Approach
Sun Shrushti Private Limited	

Annexure 3: Facility wise lender details:

(<https://www.infomerics.com/admin/prfiles/Shrushti-Contech-lenders-10aug21.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	Long Term Bank Facilities - Cash Credit	Simple
2	Long Term Bank Facilities - Secured Overdraft Loan	Simple
3	Short Term Bank Facilities - Letter of Credit	Simple
4	Long Term /Short Term Bank Facilities - Bank Guarantee	Simple

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.