Sunny Infraprojects Private Limited
September 18, 2023

Ratings

Facility	Amount (Rs. Crore)	Ratings	Rating Action	Complexity Indicator
Long-Term Bank Facilities	15.00	IVR BBB-; Stable (IVR Triple B Minus with Stable outlook)	Assigned	Simple
Short-Term Bank Facilities	33.00	IVR A3 (IVR Single A Three)	Assigned	Simple
Total	**48.00 (INR Forty-eight crore only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Sunny Infraprojects Private Limited (SIPL) derives strength from its long track record of operation and proven project execution capability under experienced promoters along with its moderate orderbook position indicating satisfactory medium term revenue visibility. Further, the ratings also considered stable operating performance of SIPL with growth in scale of operation in FY23 with average financial risk profile marked by moderate capital structure and satisfactory debt protection metrics. However, these rating strengths remain partially offset by its modest scale of operation with susceptibility of profitability to volatile input prices. The ratings further considered the exposure of the company to geographical and client concentration risk coupled with tender driven nature of business in highly fragmented & competitive construction sector.

Key Rating Sensitivities:

Upward factors

- Sustained growth in operating income with improvement in profitability and gross cash accruals.
- Sustenance of the capital structure with overall gearing to remain below 1x and/or improvement in debt protection metrics on a sustained basis.
- Improvement in operating cycle leading to improvement in liquidity.

Downward Factors

- Moderation in operating income and/or profitability and cash accrual impacting the debt protection metrics with moderation in interest coverage ratio to below 4x.
- Withdrawal of subordinated unsecured loans, any unplanned capex or availment of any fresh loan leading to impairment in the capital structure with moderation in overall gearing to over 2x and interest coverage to below 4x
- Stretch in the working capital cycle driven by stretched receivables impacting the financial risk profile, particularly liquidity.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths:

- **Experienced promoter**

The promoter and one of the directors of the company Mr. Anil Baburao Mendhe holds an experience of more than three decades in the field of construction industry. He is looking after the overall business of the company and is ably assisted by other key managerial personal, who holds an adequate experience in the same field. Further, the support from the promoters and directors in the form of unsecured loan provides additional comfort to the business.

- **Long track record of operation and proven project execution capability**

SIPL was initially established as LLP in 1997, hence it has a long track record of operations and over the past years, the company has successfully completed many projects and ensured timely completion of all its projects. The repeat orders received from its clientele validate its construction capabilities.

- **Stable operating performance with growth in scale of operations**

The topline of SIPL remained stagnant at ~Rs.15-20 crore till FY20. However, driven by improved work orders from MORTH and NHAI majorly through subcontracting, supported by better execution of the orders, the topline has improved gradually over the past couple of years from Rs.81 crore in FY21 to ~Rs.106 crore as per FY23 (Provisional). Driven by improvement in the scale of operation, the absolute EBITDA has improved from Rs.1.50 crore in FY20 to Rs. 10.77 crore in FY23 (Prov.). The profit margins of the company continue to remain range bound with improvement in EBITDA margin as it stood comfortable at

10.14% in FY23 (Prov.) against 9.99% in FY22. PAT margin also remains comfortable at 5.87% in FY23 (Prov.) with marginal improvement from 5.59% in FY22 backed by improved absolute EBITDA. Gross cash accruals of SIPL has also improved and stood at Rs.7.54 crore in FY23 against Rs.5.15 crore of FY22. In Q1FY24, the company has achieved a revenue of ~Rs.19 crore. SIPL has managed to achieve a topline of ~Rs.20 crore till July 2023.

- **Moderate orderbook position indicating satisfactory medium term revenue visibility**

The pending order book of SAPL is ~Rs.598.37 crore which is ~5.64 times of its FY23 Provisional contract revenue. The projects are expected to be executed in the coming 2-3 years and provide a strong near-to-medium-term revenue visibility for the company.

- **Average financial risk profile marked by moderate capital structure and satisfactory debt protection metrics**

The capital structure of the company had remained moderate as on the past three account closing dates owing to its small net worth base which stood at Rs.17.20 crore as on March 31, 2023. Considering the subordinated unsecured loan from promotors and directors amounting to Rs. 4.38 crore as quasi equity in FY23 the Adjusted tangible net worth (ATNW) of SIPL has improved and stood at Rs.21.58 leading to an improved adjusted overall gearing of 0.88x as on March 31, 2023. Overall indebtedness as reflected by TOL/ATNW also stood satisfactory at 2.15x as on March 31, 2023, against 4.01x as on March 31, 2022. Det protection metrics of the company remained healthy over the past three fiscals. Despite increase in absolute EBITDA in FY23, owing to increase in finance cost driven by higher working capital utilization, the interest coverage of SIPL remained satisfactory at 6.32x in FY23 against 6.50x of FY22. Total debt to EBITDA and Total debt to GCA also remained satisfactory at 1.77x and 2.53 years respectively as on March 31, 2023 (Prov.).

Key Rating Weaknesses:

- **Modest scale of operation**

The scale of operation of the company though improved over the past three fiscals remained modest at ~Rs.106 crore in FY23. Modest scale of operation of the company in construction sector restricts the financial flexibility of the company to an extent.

- **Geographical concentration risk**

SIPL is predominantly working in the state of Maharashtra. Hence has a high degree of geographical concentration. However, the company is trying to expand its business outside Maharashtra.

- **Client concentration risk**

The top five customers of FY23 contributed 99% of SIPPL's total revenue, suggesting a high client concentration of risk. Chetak Enterprise Ltd and Patil Construction & Infrastructure Ltd have been the major customer for SIPL, contributing around 85-85% of total revenue. Owing to high concentration, any adverse impact on the business of its top customers can impact the business of SIPL.

- **Susceptibility of profitability to volatile input prices:**

Major raw materials used in construction activities are steel and cement which are usually sourced from large players at proximate distances. The input prices are generally volatile and consequently the profitability remains susceptible to fluctuation in input prices.

- **Tender driven nature of business in highly fragmented & competitive nature of the construction sector**

Execution risks for newly awarded projects in a timely manner will be key to achieving growth in revenues and profits. Business certainty is dependent on the ability to successfully bid for the tenders as the entire business is tender based. The domestic infrastructure/construction sector is highly fragmented with the presence of many players with varied statures & capabilities. Presence of many players restricts the pricing flexibility of the industry participants.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Infrastructure Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Criteria of assigning rating outlook

Liquidity: Adequate

SIPL has generated gross cash accrual of Rs.7.54 crore in FY23 (Prov.) against its debt repayment obligation of ~Rs.1.39 crore. Further, SIPL is expected to generate a steady and healthy cash ranging ~Rs.9-17 crore in the projected period which would be sufficient to meet its small debt repayment obligation. Moreover, the liquidity position of the company is expected to remain adequate supported by its comfortable capital structure. The average working capital utilisation which stood ~81% during past twelve months ending in July 2023, imparts moderate liquidity buffer.

About the Company

Sunny Infraprojects Private Limited was initially established as a LLP 'Sunny Construction' in the year 1997 which subsequently in September 20, 2021, in view of the growing business, is converted into private limited company. The company is engaged in execution of civil construction contracts of roads, buildings, and canals for different departments of state government and Municipal corporation of Nagpur. SIPL is focusing towards expanding its business outside Maharashtra and strengthen its order book by taking more NHAI projects. The promoter, Mr. Anil Baburao Mendhe has experience of around three decades in the construction industry.

Financials of Sunny Infraprojects Private Limited (Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2022	31-03-2023
	Audited	Provisional
Total Operating Income	75.23	106.16
EBITDA	7.51	10.77
PAT	4.21	6.27
Total Debt	21.33	19.04
Tangible Net worth	10.93	17.20
Tangible Net worth including Quasi equity	10.93	21.58
EBITDA Margin (%)	9.99	10.14
PAT Margin (%)	5.59	5.87
Overall Gearing Ratio Adjusted (x)	1.95	0.88
Interest Coverage	6.50	6.32

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:

Sr. No	Name of Instrument/	Current Rating (Year 2023-24)	Rating History for the past 3 years

.	Facilities	Type	Amount outstanding (Rs. Cr.)	Rating	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
1.	Cash Credit	Long Term	15.00	IVR BBB-/ Stable	-	-	-
2.	Bank Guarantee	Short Term	33.00	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).

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Cr)	Rating Assigned/ Outlook
Long Term Fund Based Limits –Cash Credit	-	-	-	15.00	IVR BBB-/ Stable
Short Term Non-Fund Based Limits –Bank Guarantee	-	-	-	33.00	IVR A3

Annexure 2: Facility wise lender details:

https://www.infomerics.com/admin/prfiles/len-SIPL-sep23.pdf

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Annexure 3: List of companies considered for consolidated analysis: Not Applicable

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