

## SRM Contractors Limited

March 06, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	9.90	CARE BBB; Positive	Assigned
Long Term / Short Term Bank Facilities	84.50	CARE BBB; Positive / CARE A3	Assigned

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

The rating assigned to SRM Contractors Limited derives strength from the experienced promoters of the company, healthy order book position with reputed client base, increasing scale of operations, and comfortable financial risk profile of the company as reflected by interest coverage ratio of 6.6x and TOL/TNW of 1.14x as on March 31, 2023.

However, the rating is constraint on account of high capital expenditure requirement, highly competitive and cyclical industry with risk related to tender based order. Also, the rating is constraint of account of dependence on spending for infrastructure push by government along with geographical concentrated order book.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors

- Increase in operating income to Rs 500 crores on sustained basis.
- Improvement in the PBILDT margins to 16% and PAT margins to 10% on sustained basis

#### Negative factors

- Decrease in the operating income to Rs 250 crores
- Deterioration in the PBILDT margins to 9% and PAT margins to 4.5%

**Analytical approach:** Standalone

#### Outlook: Positive

The positive outlook reflects that the company will be benefiting from the proposed IPO and this will help the company in improving the capital structure and liquidity position in the short to medium term.

### Detailed description of the key rating drivers:

#### Key strengths

**Experienced management with good track record of operations:** The company has good track record of operations, it was incorporated in 2008 and has experience of more than decades of operations in industry. SCL is being managed by experienced promoter across various field. The company is managed by Mr. Sanjay Mehta (Managing Director), who has 18 years of experience in the construction industry. He was previously working as a Doctor before founding this company. Mr. Vinod Kohli (President) has more than 30 years of experience in execution of civil projects especially in Irrigation & flood control, tunnels and hydropower. Mr. Vikas Vaid (President) has more than 20 years of experience in project planning and execution. The finance department is headed by Mr Krishan Singh (CFO), he has experience of more than 2 decades of working in finance departments.

**Healthy order book position with reputed client base:** The company has healthy unexecuted order book of Rs 680 crores as on October 2023. It is roughly 2.2 time the total operating income for the year FY23 giving it medium term revenue visibility. The order book includes orders from reputed government organisations like Border Road Organisation, National Highways & Infrastructure Development Corporation Limited, Indian Railways.

**Increasing scale of operations:** The scale of operations of the company has been continuously increasing from the last 5 years. The CAGR of the increase in total operating income is 33% per annum. With the increase in the operating income, the profitability of the company has been increasing as reflected by increase in GCA to Rs 27.32 crore during FY23 as compared to

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

Rs 12.89 crore during FY21. The company has booked revenues of Rs 300 crores during FY23 and during the current year, till 7MFY24, the company has booked revenues of Rs 188 crores.

**Comfortable financial profile:** The PBILDT margin and PAT margin for FY23 stands at 12.76% and 6.24% respectively. The GCA of the company stood at Rs 27.32 crores in FY23 increasing from Rs 23.88 crores in FY22 (A). The capital structure has remained moderate with debt-to-equity ratio of 0.56x in FY23 (A). Also, the overall gearing ratio remained at 0.74x in FY23. Furthermore, the company is having healthy interest coverage ratio of 6.6x as on March 31, 2023. Also with the proposed IPO, the company has planned to raise Rs 138 crore and this will improve the net-worth of the company and will improve the capital structure in the short to medium term.

**Upcoming IPO-**The company has filed the DRHP for their fresh issue of 62 lakh shares having face value of 10/- share. The company will be raising approximately Rs 138 crores which they will be using for capital expenditure, repayment of debt, funding of working capital requirement, investment in JVs and general corporate purpose. The company has received observation from SEBI for IPO on Feb 09, 2024 wherein the company is allowed to proceed with the IPO within 12 months after submission of responses to the observation made by the SEBI.

### Key weaknesses:

**High capital expenditure requirement:** The nature of operations of the company are capital intensive wherein various equipment and vehicles are needed to complete the projects in time which include various drill machines, compactors, excavator, trucks etc because of which the company has to spend regularly on their capital expenditure needs. In FY23, the company has done capital expenditure of Rs 5.35 crores. Furthermore, the company will be spending Rs 40 crores through receipts of funds from IPO in capex and in case the IPO doesn't come then the company will be using debt to fund the capital expenditure.

**Highly competitive and cyclical industry with risk related to tender based orders:** SRM Contractors Private Limited majorly undertakes projects, which are awarded through the tender-based/bidding system. This exposes the company to the risk associated with the tender-based business, which is characterized by intense competition. The growth of the business depends on its ability to successfully bid for the tenders and emerge as the lowest bidder. Also, in tender based nature of business, revenue and profitability are expected to remain susceptible to volatility in raw material prices to some extent. They are also exposed to project execution risk in terms of time and cost overrun as the projects of government entities frequently get stalled/delayed because of issues such as difficulties in land acquisitions, environmental clearances and political interference.

**Dependence on spending for infrastructure push by government:** The company gets some of their revenues from the government companies like Border Road Organisation, National Highways & Infrastructure Development Corporation Limited, Indian Railways, etc, and they get their budget based on the government's capacity and intentions for spending on infrastructure improvements. Any change in the policy can severely impact the credit profile of the company.

**Geographical concentrated order book position:** The company operates in Jammu Kashmir and Ladakh region as they have expertise in construction of roads/bridges/tunnels in higher altitude. If the company gets blacklisted due to any issues from key authorities like BRO, NHAI etc then it will significantly impact the operations of the company.

### Liquidity: Adequate

The company has adequate liquidity as reflected by the cash and bank balance of Rs 19.7 crores (Including FDRs lien marked with bank of Rs 8.64 crores). The company also has high current ratio and quick ratio of 2.02x and 1.8x as on March 31, 2023. The company has low repayment of Rs 8.40 crores in FY24 against projected GCA of Rs 39.97 crores. The operating cycle of the company is also comfortable at 41 day. The average working capital utilisation has remained high at 76% for last 12 months ending Sept 2023.

### Applicable criteria

[Definition of Default](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

[Financial Ratios – Non financial Sector](#)

[Construction](#)

[Short Term Instruments](#)

### About the company and industry

#### Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
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Industrials	Construction	Construction	Civil Construction
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SRM Contractors Limited (CIN-U45400JK2008PTC002933) is a Jammu based company which was incorporated in September 04, 2008. The company is engaged in Infrastructural projects such as roads, bridges, canals, , tunnels and small hydro projects. The company has in past executed various work orders for both Private and Government clients like Border Road Organisation, Indian Railways, etc. The company is registered as "A" contractor for bridge and road with government of India.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	7MFY24 (UA)
Total operating income	263.61	300.29	188.25
PBILDT	30.17	38.30	20.6
PAT	18.31	18.75	12.59
Overall gearing (times)	0.76	0.74	NA
Interest coverage (times)	11.81	6.60	NA

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available', NA: Not available

**Status of non-cooperation with previous CRA:** Acuite (SMERA) has done a review based on best available information on August 07, 2024 and downgraded the rating to BB+/A4+. Brickwork has done a review based on best available information on August 09, 2023 and downgraded the rating to BB-: Stable/A4.

**Any other information:** NA

**Rating history for last three years:** Please refer Annexure-2

**Covenants of rated instrument / facility:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

**Complexity level of various instruments rated:** Annexure-4

**Lender details:** Annexure-5

#### Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	9.90	CARE BBB; Positive
Non-fund-based - LT/ ST-BG/LC		-	-	-	84.50	CARE BBB; Positive / CARE A3

#### Annexure-2: Rating history for the last three years

Sr. No.	Current Ratings	Rating History
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	Name of the Instrument/Bank Facilities	Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-Cash Credit	LT	9.90	CARE BBB; Positive				
2	Non-fund-based - LT/ ST-BG/LC	LT/ST*	84.50	CARE BBB; Positive / CARE A3				

\*Long term/Short term.

**Annexure-3: Detailed explanation of covenants of the rated instruments/facilities:** NA

**Annexure-4: Complexity level of the various instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - LT/ ST-BG/LC	Simple

**Annexure-5: Lender details**

To view the lender wise details of bank facilities please [click here](#)

**Annexure-6: List of all the entities consolidated**

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1		Full, proportionate or moderate	

**Note on the complexity levels of the rated instruments:** CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

## Contact Us

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