

SD Infra Private Limited

May 14, 2024

Facilities	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	86.75	CARE B+; Stable	Assigned
Short Term Bank Facilities	64.00	CARE A4	Assigned

Details of facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of SD Infra Private Limited (SDIPL) is constrained by moderate capital structure, presence in highly competitive tender-based industry, capital withdrawal risk associated with partnership nature of the entity and working capital intensive operations. The ratings however, derives strength from the extensive experience of promoters in construction sector, long track record of operations with established clientele and improved scale of operations with healthy profitability margins.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Effective utilization of working capital limits with prompt collection of receivables.
- Improve capital structure with gearing below 2.5x

Negative factors

- Any delay in collection period above 120 days leading to stretched liquidity.
- Any debt funded capex of capital withdrawal leading to deterioration in the capital structure with overall gearing above 4x.

Analytical approach: Combined. CARE Ratings Limited (CARE Ratings) has combined the business and financial risk profiles of SD Infra (SDI) and SD Infra Private Limited (SDIPL) as both the entities are involved in same line of business, have common management and share significant business and financial linkages.

Outlook: Stable

The stable outlook reflects that the group is expected to sustain its financial and operational performance with revenue visibility in the medium term through comfortable order book position.

Detailed description of the key rating drivers

Key weaknesses

Moderate capital structure and debt coverage indicators

The capital structure of the group stood moderate with overall gearing of 5.36x as on March 31, 2023 as against 1.22x as on March 31, 2022 due to increase in vehicle and equipment loans. However, the gearing has improved in 11MFY24 (refers to the period April 01 to February 29) due to increase in the networth. The debt coverage metrics stood moderate with total debt/gross cash accruals (TDGCA) of 8.76x as on March 31, 2023 as against 6.47x as on March 31, 2022.

Concentrated order book position

The order book position stood at Rs.466.26 crore as on March 31, 2024, translating to 3.59 times of FY23 income. The order book is concentrated with top two orders constituting 43% of total order book value eventhough, the business is diversified to Tamil Nadu, Karnataka and Andhra Pradesh, which are high potential states in South India. The orders in FY24 were secured in the name of SDIPL and the other orders were secured in the name of SDI.

Partnership nature of the firm with inherent risk of capital withdrawal

The partnership nature of business of SDI has inherent risk of withdrawal of capital by the partners at the time of their personal contingencies resulting in reduction of capital base leading to adverse effect on capital structure. The partners had withdrawn capital in FY23, of which Rs.7 crore was infused back in FY24 into SDIPL and the management indicated that they would infuse further capital in the private limited entity in the up-coming years.

Highly competitive and tender-based industry

The civil construction industry is highly competitive and working capital intensive in nature. Due to the competition in bidding for Government contracts, the margins are generally under pressure and relatively low. There is limited revenue diversity for SD Infra group even though contracts are concentrated in Tamil Nadu, Karnataka and Andhra Pradesh. Revenue is thus vulnerable to progress on these projects and are depend on the company's ability to bid successfully for these tenders. There are numerous fragmented & unorganized players operating in the industry which makes the civil construction space highly competitive.

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE Ratings Ltd.'s publications.

However, the ability of the group to get repeat orders from the existing clients based on past track record partially mitigates the risk.

Key Strengths

Vast experience of the promoters in the construction sector

The business of SD Infra Private Limited (SDIPL), was started as a proprietorship firm, 22 years back by Mr. Devendran (one of the promoters), the wholetime director of SDIPL, with the guidance of his brother Mr. A.S. Nethaji, who is an Ex-structural Engineer of a renowned company, Bharat Heavy Electricals Limited (BHEL) (rated CARE AA-; Stable/ CARE A1+). Mr. Devendran, then converted his business into partnership firm, named SD Infra (SDI) in the year 2016 along with his brother A.S. Nethaji and his sons Mr. D. Manjunath and Mr. D. Balaji. All the four partners are holding bachelors degree in civil engineering and having various expertise in the construction sector. They have then started SDIPL in the year 2020 to takeover the business of SDI.

Long track record of operations of the group in the construction sector with reputed clientele

SDI group has operational track record of more than two decades. SDI group, based out of Trichy, Tamilnadu, is engaged in execution of road laying works, upgradation and maintenance of roads as per tenders issued by National Highways Authority of India (rated CARE AAA; Stable), State Highways Departments. It is also involved in construction of bridges, Vehicle under passes and construction of retainer walls. It is registered as a "Class 1" contractor with the Government of Tamil Nadu, Karnataka and Andhra Pradesh.

Improved scale of operations with healthy profitability margins

The scale of operations improved with income in the range of Rs.78.23 crore to Rs.129.98 crore over the past 3 years ended FY23 (refers to period April 01 to March 31). The income has further improved to Rs.216.27 crore in 11MFY24 (refers to period April 01 to February 29) due to execution of more projects post covid. The PBILDT margin stood comfortable in the range of 14-15% over the past three years ended FY23 and the same is also maintained in 11MFY24.

Liquidity: Stretched

The liquidity position of SDI group is stretched with tightly matched accruals of Rs.8.17 crore in FY23 against repayment obligations of around Rs.6.41 crore. During Feb 2024, SDIPL has been sanctioned with FB limits of Rs.50 crore and NFB limits of Rs.64 crore. SDI does not have any working capital limits as on date, as the same has been closed in Feb 2024 using the limits of SDIPL. SDI earlier had CC limits of Rs.30 crore (enhanced from Rs.16 crore from March 2023) and BG limits of Rs.50 crore. There had been several instances of overdrawals in the CC limits of SDI upto maximum of 21 days as there had been stretched payments from NHAI. However post take over of limits by SDIPL along with enhancement to Rs.50 crore, there is no overdrawal of CC limits. The average WC utilization stood at 85% for the past three months ended April 2024 for SDIPL while the average NFB also stood at 85% during the above period. The free cash balance of the group stood at Rs.6.47 crore as on March 31, 2023.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks: Not applicable

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](#)

[Consolidation](#)

About the group and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Industrials	Construction	Construction	Civil Construction

SD Infra Private Limited (SDIPL), is a private limited company, incorporated in the year 2020, by Mr. Devendiran and his family to take over the running business of SD Infra (SDI), Partnership firm. SD Infra Group, based out of Trichy, Tamilnadu, is engaged in undertaking construction and maintenance of roads & bridges for National Highways Authority of India (NHAI) and State Highways Departments.

Brief Financials (₹ crore) - Combined	31-03-2022 (UA)	31-03-2023 (UA)	11MFY24 (Prov)
Total operating income	86.09	129.98	216.27
PBILDT	12.26	19.01	32.80
PAT	3.71	2.92	11.15

Overall gearing (times)	1.22	5.36	3.02
Interest coverage (times)	2.39	2.11	2.63

UA: Unaudited; Prov: Provisional; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not applicable

Rating history for last three years: Please refer to 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		-	-	-	50.00	CARE B+; Stable
Fund-based - LT-Term Loan		-	-	February 2028	36.75	CARE B+; Stable
Non-fund-based - ST-Bank Guarantee		-	-	-	64.00	CARE A4

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	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
1	Non-fund-based - ST-Bank Guarantee	ST	64.00	CARE A4				
2	Fund-based - LT-Cash Credit	LT	50.00	CARE B+; Stable				
3	Fund-based - LT-Term Loan	LT	36.75	CARE B+; Stable				

LT: Long term; ST: Short term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

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	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - ST-Bank Guarantee	Simple

Annexure-5: Lender details

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

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.

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About us:

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