SRM Contractors Limited

December 24, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	9.90	CARE BBB+; Stable	Reaffirmed
Long Term / Short Term Bank Facilities	220.50 (Enhanced from 84.50)	CARE BBB+; Stable / CARE A3+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of ratings assigned to the bank facilities of SRM Contractors Limited (SRM) factor in growing scale of operations driven by better execution of orders in hand, strong revenue visibility supported by healthy order book position and comfortable financial risk profile, bolstered by successful fundraising through its initial public offering (IPO). Further, the ratings also derive strength from experience of the promoters, company's long track record in project execution, established market position in the Engineering, Procurement and Construction (EPC) of construction of roads/bridges/tunnels on higher altitudes. However, the ratings are constrained on account of highly fragmented and competitive construction industry, inherent execution risks related to projects, working capital intensive nature of operations and geographical concentrated order book position.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Growth in total operating income (TOI) above Rs. 800 crores and profit before interest, lease rentals, depreciation and taxation (PBILDT) margin above 16% with improvement and diversification in order book position on a sustained basis.
- Efficient working capital management thereby further improving the liquidity profile of the company.

Negative factors

- Decline in scale of operations by more than 20% from existing levels and moderation in operating margins below 12% on sustained basis
- Elongation in average collection period beyond 90 days and further elongation in gross current assets days adversely impacting liquidity position of the company.
- Deterioration in the capital structure with overall gearing ratio beyond 0.75x on a sustained basis.
- Any delays in project execution impacting the financial performance and liquidity position of the company.

Analytical approach: Standalone

Outlook: Stable

The 'Stable' outlook indicates CARE Ratings' expectation of continued healthy operating performance and sufficient liquidity, bolstered by the timely execution of the order book, which is expected to further enhance the financial risk profile over the medium term.

Detailed description of key rating drivers:

Key strengths

Growing scale of operations:

The company has achieved TOI of Rs. 342.65 crore in FY24, marking growth of approximately 14% compared to FY23. The growth in TOI was primarily driven by higher order book execution. Further, company's PBILDT & profit after tax (PAT) margin has remained almost stable at ~12% & ~6% respectively during FY24.

The company has achieved TOI of ~Rs. 149 crores with PBILDT margin of ~18% during H1FY25 (refers to the period April 01 to September 30). The company is prioritizing the execution of slope and tunnel projects in the second half of FY25, as these projects offer higher profitability margins compared to the highly competitive road construction projects.

CARE Ratings anticipates that the company's scale of operations will continue to grow in the medium term, driven by an expanding order book and effective execution.

[1]Complete definition of ratings assigned are available at www.careedge.in and other CARE Ratings Limited's publications.

Comfortable financial risk profile:
The company recently went for IPO & got listed in April 2024 which resulted in total inflow of Rs. 130.20 crores. Successful fund raising using IPO resulted in improvement in the financial risk profile & liquidity position of the company. The overall gearing of the company improved from 0.71x as on March 31, 2023, to 0.33x as on March 31, 2024, primarily on account of share application money received during IPO. The interest coverage ratio of the company has improved from 6.60x in FY23 (refers to the period April 01 to March 31) to 7.36x in FY24 (refers to the period April 01 to March 31) on account of better profitability during FY24. Total debt to gross cash accruals has (TD/GCA) improved to 1.32x as on March 31, 2024 (PY: 1.63x) owing to increased GCA level.
The overall gearing of the company has further improved to 0.16x as on September 30, 2024, majorly due to receipt of entire IPO proceeds during Q1FY25 (refers to the period April 01 to June 30) and consequential improvement in networth position.
Care Ratings' expects the company to maintain its comfortable financial risk profile over medium term, supported by better order book execution, healthy profitability and absence of any major debt funded capex.

Healthy order book position; albeit remains geographically concentrated:
The company has an unexecuted order book of ~Rs.1,589 crores as on November 30, 2024, which is equivalent to 4.6 times of TOI of FY24 thereby providing strong revenue visibility in the medium term and includes orders for roads, bridges, canals, tunnels and small hydro projects. The current order book of the company is majorly from government and quasi government entities, where the counterparty risk is low. The order book however remains concentrated with ~66% coming from top 5 projects. The company majorly operates in Jammu & Kashmir (J&K), Uttarakhand and Ladakh region due to expertise in construction of roads/bridges/tunnels at higher altitudes. Therefore, the order book has geographical concentration in the state of J&K with around 43% share followed by Uttarakhand with around 21% share and Ladakh having ~17% share; thus, exposing the company to geographical concentration risk and any adverse change in government policy and rules & regulations related to construction activities in these areas may impact company's performance. Further, the management is focusing on diversifying its order book towards other states in India mainly, Jharkhand, Orissa etc.
While the company's order book position remains healthy and ensures strong revenue visibility in the medium term, the addition of new orders and the timely execution of the existing order book will be crucial factors to monitor for ratings.

Experienced promoters and established track record in construction industry:
SRM was incorporated in year 2008 by Mr. Sanjay Mehta, who has experience of around two decades in executing diverse construction & Infrastructural projects. The company has a long track record of successfully completing several projects such as roads, bridges, canals, tunnels and small hydro projects. SRM has executed projects across northern India with contracts executed in the state of Uttarakhand, Jammu & Kashmir, Himachal Pradesh, Arunachal Pradesh, Ladakh etc.

Key weaknesses

Presence in a highly fragmented and competitive construction industry:
SRM is a mid-sized player operating in the intensely competitive construction industry wherein contracts are awarded on the basis of relevant experience of the bidder, financial capability, and most attractive bid price. The highly competitive intensity is on account of the presence of a large number of contractors resulting in aggressive bidding which exerts pressure on the margins. Further, aggressive bidding, interest rate risk and delays in projects due to environmental clearance are other external factors may affect the credit profile of industry players.

Inherent execution risks related to projects:
The construction projects in residential and commercial segments have an inherent risk of delay in execution due to site hand over, weather conditions and issues related to availability of labour etc. which may result in time and cost overrun in the projects. However, the long industry experience of SRM's promoters of around two decades and the company's long track record mitigates these risks to some extent.

Working capital intensive nature of operations though efficiently managed:
The company's operations are capital-intensive, primarily due to an extended collection period resulting from the inclusion of retention money in projects. The company's average collection period & inventory period increased to 61 days & 23 days respectively, in FY24 as against 54 days & 13 days respectively, in FY23 on account of increased order book position. Creditor's period remained stable at 26 days during FY24. The operating cycle elongated albeit remained comfortable at 58 days in FY24 as against 40 days in FY23. Further, gross current assets days of the company stood at 135 days as on March 31, 2024. The company meets its working capital requirements largely through working capital bank limits, interest free mobilization advances and stretching of creditors payment. With envisaged growth in scale of operations and healthy order book position, working capital

requirements of the company are expected to increase in medium term. The company's ability to manage its working capital requirements with minimal reliance on external debt will remain a key monitorable.

Liquidity: Adequate
Adequate liquidity is marked by sufficient buffer available between expected accruals of ~Rs.53 crores against debt repayment obligations of ~Rs.9 crores during FY25 (refers to the period April 01 to March 31). The liquidity is further aided by free cash, bank & FDR balances of ~Rs. 57 crores as on September 30, 2024. Utilization of fund based working capital limit has remained low at around 40-50% during past 12 months ended November 2024.
The company will be incurring a capex of around Rs. 30 crores mainly for additional equipment and machinery requirement for efficient execution of orders in hand that would be funded out of IPO proceeds & additional term loan as per requirements.

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

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Industrials	Construction	Construction	Civil Construction

SRM Contractors Limited is a Jammu based company which was incorporated on September 04, 2008. The company is engaged in Infrastructural projects such as roads, bridges, canals, tunnels and hydro projects. The company has executed various work orders for both Private and Government clients like Border Road Organisation, Indian Railways, etc. The company is registered as 'Class A' contractor with Jammu & Kashmir's Public Work Department.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	H1FY25 (UA)
Total operating income	300.29	342.65	149.46
PBILDT	38.30	41.87	26.81
PAT	19.16	22.17	13.58
Overall gearing (times)	0.71	0.33	NA
Interest coverage (times)	6.60	7.36	7.23

A: Audited UA: Unaudited NA: Not Available; Note: these are latest available financial results

Status of non-cooperation with previous CRA:

- Acuite has conducted the review on the basis of best available information and has classified SRM as "Not cooperative" vide its press release date November 04, 2024, due to non-availability of requisite information to conduct the rating exercise.
- Brickwork has conducted the review on the basis of best available information and has classified SRM as "Not cooperative" vide its press release dated August 12, 2024, due to non-availability of requisite information to conduct the rating exercise.

Any other information: Not Applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	9.90	CARE BBB+; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	220.50	CARE BBB+; Stable / CARE A3+

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/ Bank Facilities	Current Ratings			Rating History			
		Type	Amount Out-standing (₹ 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	Fund-based - LT-Cash Credit	LT	9.90	CARE BBB+; Stable	1)CARE BBB+; Stable (01-Oct-24)	1)CARE BBB; Positive (06-Mar-24)	-	-
2	Non-fund-based - LT/ ST-BG/LC	LT/ST	220.50	CARE BBB+; Stable/ CARE A3+	1)CARE BBB+; Stable / CARE A3+ (01-Oct-24)	1)CARE BBB; Positive / CARE A3 (06-Mar-24)	-	-

LT: Long term; LT/ST: Long term/Short term

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

Annexure-4: Complexity level of 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

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

Contact us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Puneet Kansal Director **CARE Ratings Limited** Phone: 120-4452000 E-mail: puneet.kansal@careedge.in
Relationship Contact Ankur Sachdeva Senior Director **CARE Ratings Limited** Phone: 912267543444 E-mail: Ankur.sachdeva@careedge.in	Rajan Sukhija Assistant Director **CARE Ratings Limited** Phone: 91-120-4452000 E-mail: Rajan.Sukhija@careedge.in Neeraj Goyal Assistant Director **CARE Ratings Limited** E-mail: Neeraj.Goyal@careedge.in

About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

For detailed Rationale Report and subscription information, please visit www.careedge.in