

Sri SCL Infratech Limited (Revised)

November 29, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	25.00	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	300.00	CARE BBB-; Stable / CARE A3 (Triple B Minus; Outlook: Stable/ A Three)	Reaffirmed
Total Bank Facilities	325.00 (Rs. Three Hundred Twenty-Five Crore Only)		

Details of instruments/facilities in Annexure-1
Detailed Rationale & Key Rating Drivers

The reaffirmation in the ratings assigned to the bank facilities of Sri SCL Infratech Limited (SCL) continue to derive comfort from experienced and resourceful promoters, healthy orderbook position comfortable collection period, adequate liquidity profile and stable industry outlook. The ratings also consider decline in total operating income (TOI) during FY21 (refers to period April 01 to March 31) albeit improved in H1FY22. The rating strengths are however partially offset by high exposure in group company, low profitability margins, moderately leveraged capital structure, competitive and tender based nature of business.

Rating Sensitivities
Positive Rating Sensitivities- Factors that could lead to positive rating action/upgrade

- ✓ Steady growth in TOI by more than 30% y-o-y and improvement in profitability margins.
- ✓ Improvement in overall gearing to below unity.

Negative Rating Sensitivities-Factors that could lead to positive rating action/upgrade

- ✗ Significant decline in TOI or profitability by more than 20% y-o-y.
- ✗ Significant delay in receiving pending dues from the Andhra Pradesh government resulting in inability of SCL to write-off the significant investment in its Indonesian subsidiary.
- ✗ Collection period or operating cycle stretching beyond 120 days, in future.

Detailed description of the key rating drivers
Key Rating Strengths
Experience and resourceful promoters

Mr. D.V. Naidu, the promoter of the company is a Mechanical Engineer from Andhra University and has more than 45 years of work experience in the construction industry. The overall management and the day-to-day affairs are looked after by Mr. Naidu (Managing Director) and his son, Mr. Srinivas, who are guided and assisted by experienced team of professionals with considerable experience in construction industry. The promoters are resourceful and have been infusion funds in the business in the form of unsecured loan as and when needed. The outstanding unsecured loan from promoters stands at Rs. 178 crore as on March 31, 2021.

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

Healthy order book position

SCL has confirmed order book position of Rs. 2548 crore as on August 31, 2021. The unexecuted order book position of the company translates to 3.44x of the gross billing for FY21, thereby providing medium to long term revenue visibility. The current work orders of the company are spread across five states viz. Telangana, Uttar Pradesh, Andhra Pradesh, Odisha and Maharashtra. Irrigation sector constitutes about 51% of the orderbook followed by railways (25%) and balance comprising rural water supply works.

Improved capital structure

The capital structure marked by debt to equity and overall gearing improved to 1.13x (PY: 1.46) and 1.33x (PY:1.74x) as on March 31, 2021 respectively primarily on account of reduction in debt levels which includes lower mobilization advance and repayment of unsecured loans amounting to Rs. 13.82 crore along with accretion of profits to the net worth. These unsecured loans may be repaid if there is surplus available with the company. Excluding unsecured loans (infused by promoters/directors) of Rs 178.89 crore outstanding as on March 31, 2021, the overall gearing of the company stands comfortable at 0.27x as on March 31, 2021 (as against 0.49x as on March 31, 2020). Further, the debt coverage indicators such as total debt/GCA and PBILDT interest coverage stood comfortable at 8.20x and 3.64x in FY21.

Escalation clause for input prices in contracts

The major raw materials for the company are steel and cement for civil construction works. Since, the raw materials are commodities in nature, the prices of the same remain volatile which exposes the company to risks associated with volatility in raw material prices. However, the company has price escalation clauses in all the civil construction projects from the Government barring labour rates.

Liquidity: Adequate

Adequate liquidity marked by healthy cash accruals of Rs. 27.64 crore viz-a-viz lower repayment obligation i.e. term loan repayment of Rs.1.91 cr.as. Company has free cash and liquid investments of Rs. 52 crore as on March 31, 2021. The average working capital utilization of the company stood moderate at 92% for twelve months ended August 2021.

Comfortable operating cycle

Despite operating in construction sector which is marred by stretched receivables and elongated operating cycle, the company's operating cycle remained comfortable at 70 days in FY21 having improved from 82 days in FY20. The collection period also remains short at about a month. The operating cycle of the company has improved significantly from 270 days in FY19 to 70 days in FY21 as the company has been strategically participating in tenders where there is limited risk associated with project execution or collection of debtors. Furthermore, the company is bidding more for central government or railways project as against AP state projects or irrigation works which has helped it to improve its operating cycle.

Key Rating Weaknesses**High exposure in group company**

The total exposure in group companies stood at about Rs 154.46 crore as on March 31, 2021. The exposure in group companies majorly pertains to its wholly owned subsidiary i.e. PT Srinivasa mining amounting to Rs 122.93 crore. SVC is in discussion with regulatory authorities to disinvest in the said Indonesian subsidiary. SVC plans to write-off this investment with the residual claim to be receive from government of Andhra Pradesh. In FY17, SVC was awarded an amount of Rs.345 crore towards the claims pertaining to Pulichintala Project, of which SVC has received part amount and about Rs 142 crore along with accrued interest thereon remains pending as on March 31, 2021. However, ability of the company to set-off this significant exposure in the said Indonesian subsidiary which forms around 90% of the net worth of SVC is critical from rating perspective.

Decline in TOI and low profitability in FY21

The TOI of the company declined by 8% during FY21 primarily because of impact of COVID pandemic on the construction sector. The TOI although improved in H1FY22 to Rs. 254.91 crore post lifting of lockdown conditions and resumption of construction activities. Profitability margins of the company moderated to 6.76% in FY21 (8.25% in FY20) primarily because of change in the orderbook composition whereby company started executing more of railway and rural water projects as against irrigation work undertaken earlier. The irrigation works although had higher operating margin, had long gestation and realisations were slower.

Tender-based nature of operations in intensely competitive civil construction industry

The company receives all its work orders from government departments and railways constituting 100% of its order book. All these are tender-based and the revenues are dependent on the company's ability to bid successfully for these tenders. Profitability margins come under pressure because of this competitive nature of the industry. However, the promoters' long industry experience of more than two decades mitigates this risk to some extent. However, there are numerous fragmented & unorganized players operating in the segment which makes the civil construction space highly competitive.

Industry outlook:

The Indian construction industry is expected to register an annual growth of 15.9% in real terms in 2021, following a decline of 12.3% in 2020. Despite the outbreak of the second wave of the Coronavirus (COVID-19) pandemic, the construction industry in India registered a year-on-year (Y-o-Y) growth of 68.3% in real terms in Q2 2021, according to the Ministry of Statistics and Programme Implementation (MoSPI). To raise additional financing to implement infrastructure projects, the government launched the National Monetisation Pipeline (NMP) in August 2021. The plan focuses on raising financing from the private sector by leasing out state-owned infrastructure assets between FY2021/2022 and FY2024/2025 and investing the revenue generated through this transfer on new infrastructure projects. According to the MoSPI, India had a pipeline of 1,781 projects, worth INR27.3 trillion (US\$355.3 billion), as of 1st August, 2021, with the sectors having the highest number of projects including the road transport and highway, railways, petroleum, coal, power and water resources sectors.

Analytical approach: Consolidated

(Joint ventures that are consolidated include SCL-BSCPL Joint venture, BSCPL-SCL Joint venture, SCL-CR18G Joint venture, SCL-CRC21B Joint venture, SCL-INDU-KBL-WEG Joint venture and SCL-SMC Joint venture)

Applicable Criteria

[Policy on default recognition](#)
[Financial Ratios – Non financial Sector](#)
[Liquidity Analysis of Non-financial sector entities](#)
[Rating Outlook and Credit Watch](#)
[Short Term Instruments](#)
[Construction](#)

About the Company

Sri SCL Infratech Ltd (SCL) was founded by Mr D. V. Naidu as a partnership firm under the name of Srinivasa Construction in 1981. It was incorporated as private limited company in June 1990 and was later converted into a public limited company in June 1997. Based in Hyderabad, the company is engaged in civil construction of irrigation projects, hydro power and railway projects across India mainly in Andhra Pradesh and Telangana.

Brief Financials (Rs. crore)	31-03-2020 (Audited)	31-03-2021 (Audited)	H1FY22
Total operating income	808.47	739.50	254.91
PBILDT	66.71	49.97	24.83
PAT	26.67	23.97	13.60
Overall gearing (times)	1.74	1.33	NA
Interest coverage (times)	2.73	3.64	5.53

Numbers per reported revenue in the Audited financials which includes revenue from JVs and subcontracting revenue, excluding the JV's share the TOI and PBILDT for FY21 stands at Rs. 482.50 crore and Rs 47.29 crore, respectively.

NA: Not available

Status of non-cooperation with previous CRA: NA

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 for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	25.00	CARE BBB-; Stable
Non-fund-based - LT/ ST-Bank Guarantees		-	-	-	300.00	CARE BBB-; Stable / CARE A3

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Cash Credit	LT	25.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (07-Oct-20)	1)CARE BB+; Stable (18-Dec-19)	1)CARE BB; Stable (04-Dec-18)
2	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST*	300.00	CARE BBB-; Stable / CARE A3	-	1)CARE BBB-; Stable / CARE A3 (07-Oct-20)	1)CARE BB+; Stable / CARE A4+ (18-Dec-19)	1)CARE BB; Stable / CARE A4 (04-Dec-18)

* Long Term / Short Term

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

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - LT/ ST-Bank Guarantees	Simple

Annexure 5: Bank Lender Details for this Company

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

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

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