March 08, 2023

SRC Projects Private Limited: [ICRA]BBB (Stable)/[ICRA]A3+ rating assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based/CC	10.00	[ICRA]BBB (Stable); Assigned
Long-term – Fund-based/TL	13.12	[ICRA]BBB (Stable); Assigned
Short-term – Non-fund based	40.00	[ICRA]A3+; Assigned
Total	**63.12**	

**Instrument details are provided in Annexure I*

Rationale

The assigned ratings factor in SRC Projects Private Limited's (SPPL) favourable financial profile, characterised by its comfortable capital structure and coverage indicators. The ratings consider the extensive experience of the promoters in the construction segment and the company's operational track record. The ratings positively factor in SPPL's reputed and financially strong clientele and its long association with its key clients, which mitigates the counterparty risk to an extent. The company's order book position of nearly Rs. 202 crore as of February 2023 provides adequate near-term revenue visibility.

The ratings, nonetheless, remain constrained by the company's moderate scale of operations along with the volatility in its revenues as witnessed in the past. The ratings further factor in the high geographical and customer concentration. The ratings note the execution risks associated with the construction contracts, given that nearly 41% of its order book as of February 2023 is in nascent stages of execution. This apart, the ratings are constrained by the regulatory risk associated with the sand manufacturing/boulder mining business, which could have a bearing on its profitability. The ratings take note of the company's exposure to contingent liabilities in the form of bank guarantees (BGs). Nonetheless, ICRA draws comfort from SPPL's favourable execution track record and no crystallisation of BGs in the past. The ratings also consider the intense competition faced by the company from other players in the construction segment, which could limit its ability to scale up its operations at a healthy pace.

The Stable outlook reflects ICRA's expectations that the company's credit profile will benefit from its established track record in the construction business, long association with its customers and its adequate order book.

Key rating drivers and their description

Credit strengths

Favourable financial profile – SPPL's financial profile is favourable, characterised by a conservative capital structure, comfortable coverage indicators and adequate liquidity. Its leverage (total outside liabilities/tangible net worth (TOL/TNW)) has been low, in the range of 0.2-0.7 times during FY2018-FY2022, supported by the company's limited reliance on external borrowings and considerable net worth position. Its coverage metrics have been healthy in the past, given its robust profitability and relatively lower debt obligations. Its interest coverage was upwards of 10 times during FY2018 – FY2022, while its DSCR was largely in the range of 6-11 times during the corresponding period. Going forward, the recent debt-funded capital expenditure undertaken by the company (primarily towards setting up a captive solar power plant) is likely to result in a slight moderation of coverage metrics in FY2023-FY2025, compared to the past trend. Nevertheless, the coverage metrics are still expected to be comfortable.

Adequate order book position – The company's pending order book position stood at ~Rs. 202 crore as of February 2023 (translates into order book/operating income of 2.2 times of FY2022's construction segment revenues), thereby providing adequate near-term revenue visibility. Nevertheless, its ability to secure projects consistently, amid the prevailing competition, remains the key to attain healthy revenue growth and will be a key credit monitorable.

Established operational track record and long association with renowned customers – The company has been in business since 1964 and has an established operational track record. Under the construction segment, it mainly caters to private sector players. It has a long association of over a decade with its key customers such as JSW Steel Limited and Mahindra and Mahindra Limited, among others. Besides, although its clientele is private entities, its key customers are reputed and financially strong entities, which provides comfort and limits the counterparty risk to an extent.

Extensive experience of the promoters in the construction segment – The company's key promoters are Dr. Mahudeswaran and Mr. Ramasamy Ganesan, who have over four decades of experience in the construction business. The promoters are involved in its operations and SPPL benefits from their long experience.

Credit challenges

Moderate scale of operations and volatility – SPPL's revenues have been moderate, in the range of Rs. 115 crore - Rs. 190 crore p.a. during FY2018-FY2022. Besides, the revenues have been volatile in the past, mainly owing to fluctuations in the company's construction segment income. In 10M FY2023, it has registered revenues of ~Rs. 208 crore and expects the full-year revenues to be over Rs. 240 crore. Nevertheless, the company's ability to sustain its revenues at such levels and attain further growth will be a credit monitorable.

High business concentration – In terms of its construction segment operations, it is highly concentrated in terms of geography and customers. Its order book position as of February 2023 was also concentrated in a similar way, with its entire order book pertaining to projects in a single state (Tamil Nadu). Besides, the top 3 customers accounted for nearly 72% of the company's pending order book as on February 16, 2023. In terms of its historical revenue trend, the top 3 customers accounted for 91%, 84% and 77% of the company's construction segment revenues in FY2021, FY2022 and YTD FY2023, respectively. Nonetheless, given SPPL's long-term association with its key customers for nearly one to two decades, it receives repeat orders, thereby mitigating the concentration risk to an extent.

Execution risks, exposure to contingent liabilities and competition – SPPL is exposed to the execution risks associated with construction contracts, with nearly 41% of its pending order book as on February 16, 2023, in the nascent stages of execution (less than 10% of completion). The company is susceptible to the risk of sizeable contingent liabilities in the form of BGs (~Rs. 30 crore as of January 31, 2023). Nonetheless, the favourable execution track record and no crystallisation of BGs in the past provide comfort. Besides, the company faces stiff competition in the construction space because of a tender-based contract awarding system and the presence of multiple players in the segment.

Regulatory risks associated with manufacturing segment – SPPL derives partial revenues from its manufacturing segment, wherein it sells manufactured sand (M-sand), stone aggregates, and gravel. This segment accounted for 65% and 45% of the company's overall revenues in FY2021 and FY2022, respectively. While it has licenses to six quarries as of now that cater to its crushing facilities, it is exposed to regulatory risks pertaining to renewal of those licenses. Nevertheless, the company's track record of stable operations under this segment over the past five years (FY2018 – FY2022) provides comfort to an extent.

Liquidity position: Adequate

The company's liquidity is adequate, characterised by the availability of adequate buffer in its working capital facilities and reasonable free cash balances. SPPL's unencumbered cash balances stood at ~Rs. 25.8 crore as on March 31, 2022, and the same further increased to nearly ~Rs. 44 crore as on December 31, 2022. The average utilisation of its secured overdraft facility stood at 35% during April 2021 to January 2023. The company has principal repayment obligations of ~Rs. 3.5 crore in FY2023 and Rs. 4.5 crore – Rs. 5.0 crore/annum for FY2024 and FY2025 and its operational cash flows are likely to remain adequate for meeting the same.

Rating sensitivities

Positive factors – ICRA could upgrade SPPL's ratings if there is a sustained improvement in its scale of operations, supported by healthy order accretion and timely execution, while maintaining its profitability and coverage indicators at the healthy levels and attaining improved business diversification.

Negative factors – The ratings may be downgraded if lower order accretion and/or slower execution results in significantly lower revenues or material deterioration in profitability and coverage indicators.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology - Construction
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the company's standalone financials

About the company

SRC Projects Private Limited was initially set up as a partnership firm in 1964, under the name – Sri Ranganathar & Co. It was later incorporated as a private limited company in 2002. It undertakes civil construction work, such as industrial buildings, structures, test tracks, cooling towers, among others. The company generates partial revenues from its manufacturing segment, whereby it sells M-sand, stone aggregates, and gravel. It has three crushing units in Tamil Nadu – one each in Cheyyar (in Tiruvannamalai), Panamarathupatti (in Salem) and Elaneerkundram (near Cheyyar), each with a crushing capacity of 350 MT per hour. The company's key promoters Dr. Mahudeshwaran and Mr. Ramasamy Ganesan have an extensive experience of over four decades in the construction segment.

Key financial indicators (Audited)

SPPL (Standalone)	FY2021	FY2022
Operating income (Rs. crore)	114.89	162.59
PAT (Rs. crore)	11.45	18.20
OPBDIT/OI (%)	17.85%	18.62%
PAT/OI (%)	9.97%	11.20%
Total outside liabilities/Tangible net worth (times)	0.15	0.29
Total debt/OPBDIT (times)	0.21	0.52
Interest coverage (times)	23.94	35.94

(Source: SPPL; ICRA)

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on (Rs. crore)	Date & Rating on	FY2022	FY2021	FY2020
					March 08, 2023	-	-	-
1	Fund-based working capital facility	Long term	10.00	-	[ICRA]BBB (Stable)	-	-	-
2	Term Loans	Long term	13.12	12.61	[ICRA]BBB (Stable)	-	-	-
3	Non-fund based facility – Bank Guarantee	Short term	40.00	-	[ICRA]A3+	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Fund-based working capital facility	Simple
Term Loans	Simple
Non-fund based facility – Bank Guarantee	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based working capital facility	NA	NA	NA	10.00	[ICRA]BBB (Stable)
NA	Term Loans	July 2022	NA	July 2030	13.12	[ICRA]BBB (Stable)
NA	Non-fund based facility – Bank Guarantee	NA	NA	NA	40.00	[ICRA]A3+

Source: SPPL and ICRA

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis – Not Applicable

ANALYST CONTACTS

Rajeshwar Burla
+91 40 4067 6527
rajeshwar.burla@icraindia.com

Ashish Modani
+91 22 6114 3414
ashish.modani@icraindia.com

Abhishek Gupta
+91 124 4545863
abhishek.gupta@icraindia.com

Vinodhini M
+91 44 4297 4313
vinodhini.m@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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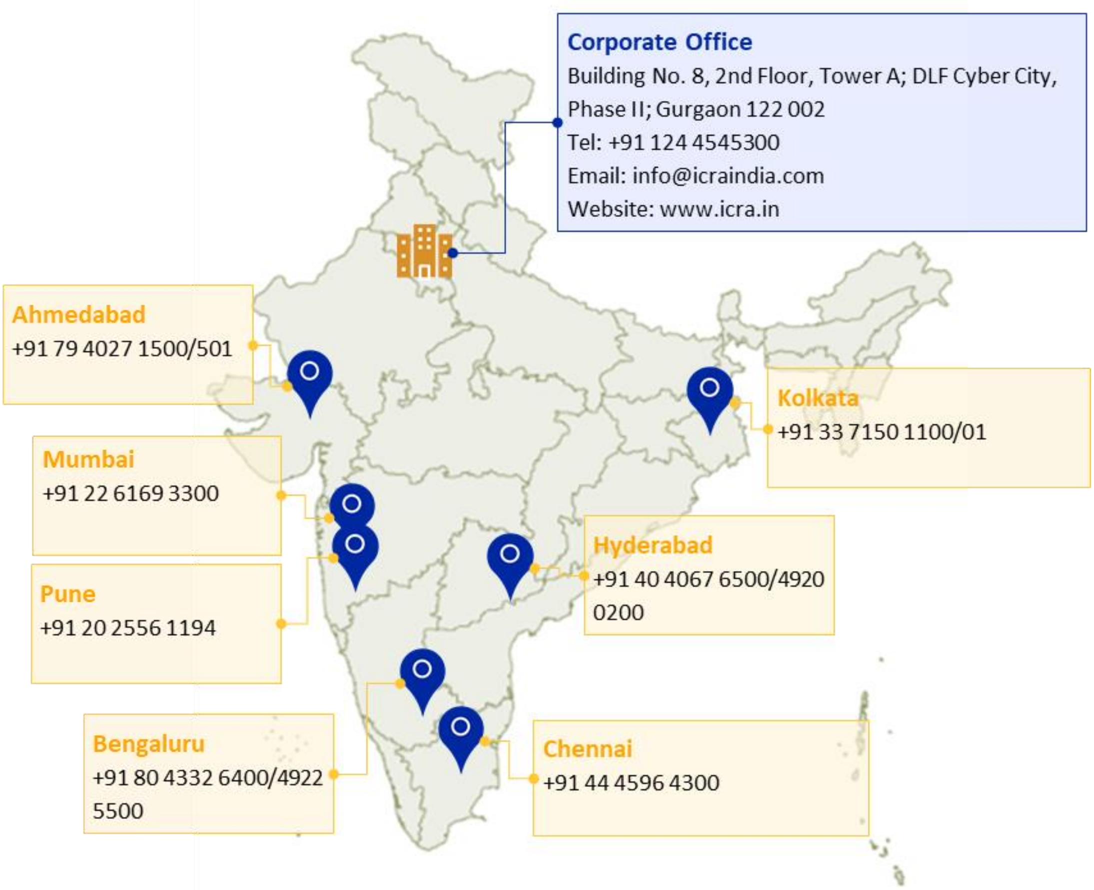
For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches



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