

September 27, 2024

Sadguru Infratech Private Limited: Long-term rating downgraded, short-term rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Others	5.00	5.00	[ICRA]B+ (Stable); Downgraded from [ICRA]BB- (Stable)
Short-term –Non-fund based – Bank guarantee	5.00	5.00	[ICRA]A4; Reaffirmed
Long-term – Fund-based– Cash credit	20.00	20.00	[ICRA]B+ (Stable); Downgraded from [ICRA]BB- (Stable)
Total	30.00	30.00	

*Instrument details are provided in Annexure-I

Rationale

The downgrade in the long-term rating of Sadguru Infratech Pvt Ltd (SIPL) is driven by the sharp deterioration in its working capital cycle (as reflected by NWC/OI of 69.2% as on March 31, 2024) due to elongation in receivable period and sizeable unbilled revenues (cumulatively aggregating Rs. 72 crore as on March 31, 2024 Vs. Rs. 50 crore as on March 31, 2023). As a result, significant funds remain blocked in working capital leading to a stretched liquidity and increased reliance on external funding support. The company's revenues declined by 30% YoY in FY2024 to Rs. 61.3 crore on account of slowdown in activity caused by the state elections in Karnataka. SIPL had an unexecuted order book (OB) of Rs. 199 crore as on July 31, 2024, translating into an OB/OI (FY2024) of 3.3 times, providing medium-term revenue visibility. However, the slow execution pace (with only Rs. 10-crore revenues (provisional) in 5M FY2025), uncertainty regarding debtors' realisation and minimal cushion available in working capital limits (average FB utilisation was 94% in 15-month ended July 2024) may constrain business growth to an extent in the near to medium term. The debt coverage indicators would remain modest in FY2025, given the low revenue base, nominal profits and cash accruals. Further, the ratings are constrained by the high segmental and geographical concentration of the order book, which is predominantly focused on the irrigation segment in Karnataka.

The ratings, however, are supported by the experience of promoters and their track record in the irrigation construction projects, reputed profile of the company's clients, which include Karnataka Government-backed – Karnataka Neeravari Nigama Limited (KNNL) and Visveswaraya Jala Nigam Limited (VJNL).

The Stable outlook on the long-term rating reflects ICRA's opinion that SIPL will sustain its operating metrics, commensurate with the rating levels, supported by execution of its current OB.

Key rating drivers and their description

Credit strengths

Experienced promoter profile – SIPL's key promoter, Mr. P. Shivaprasad Reddy, has more than 20 years of experience in constructing irrigation projects. This has aided the company in securing new orders and repeat orders from Government bodies over the years.

Credit challenges

Modest scale and high working capital intensity of operations – The company's revenue declined sharply by 30% in FY2024 to Rs. 61.3 crore, due to slowdown caused by the state elections. While it has an outstanding order book of ~Rs. 199 crore as on March 31, 2024, providing medium-term revenue visibility, ramp-up in execution remains to be seen in YTD FY2025. The

modest scale of operations restricts operational and financial flexibility. Further, its working capital intensity deteriorated, as reflected in NWC/OI of ~70% in FY2024 (~20% in FY2023) owing to elongated receivable cycle and high unbilled revenues (partly attributable to higher year end billing). The has increased SIPL's reliance on external debt and creditors, and the position is expected to sustain in the near term. With limited cushion in fund-based working capital limits, business growth is likely to remain constrained.

High geographical and segment concentration risks – Most of SIPL's executed projects and those in hand are concentrated in Karnataka, exposing it to region-specific economic and political risks. It also faces sectoral concentration risk with 100% revenues emanating from the irrigation segment. While the customer concentration is high with three customers accounting for 100% of its revenue, the company's long association with these Government backed entities (KNNL and VJNL), mitigates counterparty risk to an extent.

Intense competition due to highly fragmented industry structure – The company faces intense competition in the highly fragmented construction industry, with numerous players in the organised and the unorganised segments. SIPL's profitability is exposed to stiff competition as tenders are mainly awarded based on competitive pricing.

Liquidity position: Stretched

The liquidity position is stretched due to funds blocked in the working capital cycle and limited cushion in working capital limits. Consequently, the debt repayment obligations will be tightly matched against the expected cash accruals. The average fund-based working capital utilisation for 15-months that ended in July 2024 stood at ~94%. The company has a repayment obligation of Rs. 1.6 crore per annum in FY2025 and FY2026. Timely enhancement in working capital limits and promoter's contribution, in case of any cash flow mismatch, will remain crucial for supporting its liquidity.

Rating sensitivities

Positive factors – A significant improvement in the working capital cycle and the liquidity position would be the key factors for ratings upgrade.

Negative factors – Pressure on the rating may arise if the company's scale of operations declines due to significant delays in project execution or further deterioration in the working capital cycle, which adversely impacts its liquidity position and debt protection metrics

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Construction
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

M/s Sadguru Infratech Pvt. Ltd (SIPL), incorporated in 2010 in Bangalore, Karnataka, is a civil construction company that executes irrigation projects such as designing, supplying, installing, testing, and commissioning of the lift irrigation system and formation of sites, roads, drains, CD works, SWD and its development for the proposed Nadaprabhu Kempegowda layout. It has a class one contractor license. Mr. P Shivaprasad Reddy and Mrs. P. Nirmala are the promoter directors of the company. Its orders are procured based on tenders and major orders are from the Government of Karnataka.

Key financial indicators (audited)

	FY2023(Audited)	FY2024(Provisional)
Operating income	88.7	61.3
PAT	4.0	2.8
OPBDIT/OI	9.0%	12.4%
PAT/OI	4.5%	4.6%
Total outside liabilities/Tangible net worth (times)	1.9	1.9
Total debt/OPBDIT (times)	2.1	3.3
Interest coverage (times)	3.6	2.4

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: As per its Rating Rationale dated June 3, 2024, Brickwork Ratings has downgraded the long-term rating to "BWR B" from "BWR B+" with a Stable outlook and reaffirmed the short-term rating of "BWR A4" and continued the ratings in the "Issuer Not Cooperating" category basis best available information, due to non-availability of information and lack of management cooperation.

Any other information: None

Rating history for past three years

Current (FY2025)				Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs. crore)	Sep 27,2024	Date	Rating	Date	Rating	Date	Rating
Fund-based-GECL loan	Long Term	5.00	[ICRA]B+ (Stable)	13-JUN-2023	[ICRA]BB- (Stable)	-	-	-	-
Bank guarantee-Non-fund based	Short Term	5.00	[ICRA]A4	13-JUN-2023	[ICRA]A4	-	-	-	-
Cash credit-Fund-based	Long Term	20.00	[ICRA]B+ (Stable)	13-JUN-2023	[ICRA]BB- (Stable)	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Cash credit	Simple
Long-term – Fund-based – GECL loan	Simple
Short-term – Non-fund based – 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	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash credit	Nov 29, 2022	-	NA	20.0	[ICRA]B+(Stable)
NA	GECL loan	Dec 31, 2021	11.0%- 12.5%	FY2026	5.0	[ICRA]B+(Stable)
NA	Bank guarantee	Nov 29, 2022	NA	NA	5.0	[ICRA]A4

Source: Company; *- As per sanction letter dated Feb 28, 2024

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis- NA

ANALYST CONTACTS

Ashish Modani

+91 20 6606 9912

ashish.modani@icraindia.com

Suprio Banerjee

+91 22 6114 3443

supriob@icraindia.com

Ritu Goswami

+91 124 4545 826

ritu.goswami@icraindia.com

Ayush Porwal

+91 22 6169 3352

ayush.porwal@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar

+91 22 6114 3406

shivakumar@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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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



© Copyright, 2024 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.