

September 01, 2022

Sri Sai Enterprises: [ICRA] BBB- (Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Unallocated limits – Long-term	20.00	[ICRA] BBB- (Stable); assigned
Total	20.00	

*Instrument details are provided in Annexure-I

Rationale

The assigned rating factors in the long-standing experience of Sri Sai Enterprises' (SSE) management in the toll operation and maintenance business and the firm's moderate financial risk profile with a gearing of 0.8 times as on March 31, 2022 and interest coverage of 2.6 times for FY2022. The rating draws comfort from the healthy CAGR of 26% in revenues during FY2018-FY2022, supported by increase in the number of toll collection contracts. ICRA expects the growth momentum to sustain going forward with revenue growth of over 15% in FY2023, given it has more than 35 toll auction contracts. The rating favourably notes the moderate project and geographical diversification across Andhra Pradesh, Karnataka, Tamil Nadu, and Telangana.

The rating is, however, constrained by the short-term nature of the toll auction contracts, which exposes SSE's revenues to its ability to win bids on a continuous basis. Further, SSE requires sizeable working capital requirement towards submission of cash and bank guarantee deposits to the National Highways Authority of India (NHAI), which necessitates timely increase in working capital limits to support its growth in scale of operations. Although the current limits enjoyed by the firm are expected to be sufficient for the current scale of operations, any significant increase in the toll contracts adversely impacting its liquidity position remains a key rating monitorable. The rating considers the risks associated with toll operation and maintenance business like traffic risk, leakage of toll-paying traffic, diversion of traffic to alternate routes and user resistance to pay/accept increase in toll rates. Additionally, challenges in terms of handling local issues, manpower management and toll management also constrain the rating. The rating also notes the partnership nature of the firm including the risk of capital withdrawals.

The Stable outlook on the long-term rating reflects the healthy growth in its scale of operations and low working capital intensity of the business.

Key rating drivers and their description

Credit strengths

Longstanding experience of the management in the toll operation and maintenance business – The firm's promoters have more than a decade experience in the toll collection operations. SSE was founded in 2011 and is acting as a user-fee collection agency for NHAI tolls on the basis of competitive bidding in Andhra Pradesh, Karnataka, Tamil Nadu, and Telangana.

Strong growth in revenues with increase in number of tolls under operation – The firm is managing more than 35 toll plazas as on date and SSE's operating income increased at a CAGR of 26% to Rs. 938 crore in FY2022 from Rs. 298 crore in FY2018 on account of an increase in the number of toll collection contracts. Further, the revenues are expected to be more than Rs. 1,100 crore witnessing a 15% growth in FY2023.

Moderate financial risk profile – SSE financial risk profile is moderate with gearing of 0.8 times as on March 31, 2022, and interest coverage of 2.6 times in FY2022. The firm's debt has increased to Rs. 71.1 crore in FY2022 from Rs. 18.3 crore in FY2018 on account of term loans availed for providing security deposit to the NHAI.

Credit challenges

Short-term tenure of toll collection contracts – The firm primarily takes up assured revenue-based toll collection contracts from the NHAI, which are awarded for a duration of typically three months or one year. Before the expiry of the contract, NHAI bids the stretch to a new contractor and the contract is awarded to the highest bidder of license fee. This poses risk for SSE's revenues and its revenues are linked to its ability to win projects on a continuous basis.

Sizeable working capital requirement and bank guarantee-related risk – SSE is required to submit one month's cash deposit as well as one month's BG for a one-year contract, and one month's cash deposit for a three-months contract, to the NHAI. This money is released at the end of the tenure of the contract and around 10% of the firm's revenues are stuck as cash deposit. Although the current limits are expected to be sufficient for the scale of operations, any significant increase in the toll contracts would necessitate timely increase in the working capital limits and remains a key rating monitorable.

Exposure to traffic risk and other challenges pertaining to toll operation business – SSE's presence in toll contracts awarded by the NHAI exposes it to traffic risk, leakage of toll-paying traffic, diversion of traffic to alternate routes and user resistance to pay/accept increase in toll rates. Further, challenges in terms of handling local issues, manpower management and toll management remain the key for satisfactory toll operations.

Liquidity position: Adequate

SSE's liquidity position is adequate with low utilisation of working capital limits. It receives toll collection receipts within two-three days, while the firm has to make toll collection payments to the NHAI on weekly (every Tuesday for annual contracts) or daily basis (for three-month contracts) supporting its liquidity position. Further, absence of major capex plans and nil repayment obligations also supports its liquidity position.

Rating sensitivities

Positive factors – ICRA could upgrade SSE's rating if there is a significant growth in revenues and profitability margins resulting in improvement in debt coverage metrics and liquidity profile. Specific credit metrics for a rating upgrade include improvement in interest cover to above 3.0 times on a sustained basis.

Negative factors – ICRA could downgrade SSE's rating if there is a material decline in revenues or pressure on profitability margins adversely impacting the liquidity position. Specific credit metrics could include interest cover below 2.25 times on a sustained basis.

Analytical approach

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

About the firm

Sri Sai Enterprises (SSE) is a partnership firm founded on February 21, 2011. It is involved in toll collection operations and acts as a user-fee collection agency for NHAI's tolls in Tamil Nadu, Telangana, Karnataka and Andhra Pradesh.

Key financial indicators (provisional)

SSE Standalone	FY2021	FY2022
Operating income	617.1	938.0
PAT	9.5	12.0
OPBDIT/OI	3.7%	3.1%
PAT/OI	1.5%	1.2%
Total outside liabilities/Tangible net worth (times)	1.1	1.0
Total debt/OPBDIT (times)	3.1	2.4
Interest coverage (times)	2.4	2.6

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Note: Amount in Rs. crore; All calculations are as per ICRA Research

Source: Company, ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2023)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as on July 30, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
				Sep 01, 2022	-	-	-
1 Unallocated limits	Long term	20.0	-	[ICRA]BBB- (Stable)	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Unallocated limits	Not Applicable

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: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Unallocated limits	NA	NA	-	20.0	[ICRA]BBB-(Stable)

Source: Company

[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.co.in

Vinay Kumar G
+91 40 4067 6533
vinay.g@icraindia.co.in

Anisha Maheshwari
+91 80 4332 6400
anisha.maheshwari@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.

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, 2022 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.