

December 27, 2023

Sri Sai Enterprises: Rating reaffirmed; outlook revised to Positive; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Non-fund based – Bank guarantee	0.00	100.00	[ICRA]BBB-(Positive); reaffirmed and outlook revised to positive from stable and assigned for enhanced amount
Long-term – Fund-based limits	0.00	85.00	[ICRA]BBB-(Positive); Assigned
Long-term – Fund-based – Overdraft	0.00	10.00	[ICRA]BBB-(Positive); Assigned
Long-term – Unallocated	20.00	0.00	-
Total	20.00	195.00	

*Instrument details are provided in Annexure-I

Rationale

The revision in outlook to Positive factors in significant improvement in Sri Sai Enterprises' (SSE) scale of operations, with robust revenue growth of 88% to Rs. 1,792.3 crore in FY2023, supported by increase in the number of toll collection contracts. ICRA expects the firm to sustain its scale of operations going forward as well. It is required to provide one month's toll collection as cash deposit and bank guarantee for securing toll collection contracts from the National Highways Authority of India (NHAI). With reduction in the security requirement of NHAI by 50% with effective from January 2023, the firm was able to secure higher number of contracts, which supported growth over the past two years. Although the current limits enjoyed by the firm are expected to be sufficient for the current scale of operations, any significant increase in toll contracts adversely impacting its liquidity position remains a key rating monitorable. The rating considers the long-standing experience of SSE's management in the toll collection business and the moderate financial risk profile with a gearing of 0.7 times as on March 31, 2023 and interest coverage of 6.0 times for FY2023. The rating draws comfort from the firm's geographically diversified toll contracts with presence in 8 states.

The rating is, however, constrained by the decline in operating margins to 1.49% in 7M FY2024 from 4.7% in FY2023 (4.1% in FY2022) owing to increased competition and losses incurred in toll contracts, primarily in northern India where the firm has diversified in FY2023. While the operating margins are expected to improve in H2 FY2024 due to seasonally strong second half because of improved economic activity, the extent of improvement remains key rating monitorable. The ratings consider the short-term nature of the toll auction contracts, which exposes SSE's revenues to its ability to win bids on a continuous basis. The rating is constrained by risks associated with toll collection business like traffic risk, leakage of toll-paying traffic, diversion of traffic to alternative routes and user resistance to pay/accept increase in toll rates. Additionally, the ratings factor in the challenges associated in the toll collection business in terms of handling local issues, manpower management and toll management. The rating also notes the partnership nature of the firm including the risk of capital withdrawal.

The Positive outlook on the long-term rating reflects that the firm will be able to sustain growth in revenues, along with improvement in profitability margins resulting in improved debt coverage metrics and liquidity position.

Key rating drivers and their description

Credit strengths

Strong growth in revenues with increase in number of tolls under operation – SSE's operating revenues have seen a growth of 88% to Rs. 1,792.3 crore in FY2023, supported by increase in the number of toll collection contracts. ICRA expects the firm to sustain its scale of operations going forward. Given this, the revenues are expected to be more than Rs. 2,300 crore in FY2024, driven by healthy unexecuted order book position of Rs. 1,973.6 crore as of November 2023.

Comfortable financial risk profile – SSE's financial risk profile is comfortable with gearing of 0.5 times as on March 31, 2023, and interest coverage of 6.0 times in FY2023. However, the firm's debt position has increased to Rs. 84 crore as on March 31, 2023 from Rs. 18.3 crore as on March 31, 2018 owing to availing term loans for providing security deposit to the NHAI.

Longstanding experience of management in toll collection 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 the NHAI's tolls and has presence in 8 states.

Credit challenges

Decline in operating margins in current financial year amid diversification into new geographies – The firm's operating margins declined to 1.49% in 7M FY2024 from 4.70% in FY2023 on account of losses incurred majorly in the recently received toll contracts in the northern India. The performance in some of the toll contracts in these regions was sub-par dragging down the overall profitability. There is increased competition in toll collection contracts on the back NHAI reducing performance security. Going forward, the firm's ability to improve the profitability margins will be the key monitorable.

Sizeable fund-based and bank guarantee-related requirements to constrain revenue growth – SSE is required to submit 15-days cash deposit as well as 15-days BG for a one-year contract, and 15-days cash deposit for a three-months contract, to the NHAI. This money is released at the end of the tenure of a contract. Around 10% of the firm's revenues are stuck in working capital. The NHAI has decreased the security requirement for toll collection contracts to 15-days from 30-days in January 2023. Nevertheless, the current limits are expected to be sufficient for the scale of operations, and any significant rise in the toll contracts would necessitate timely increase in the working capital limits and remains a key rating monitorable.

Short-term tenure of toll collection exposes revenues to toll contract renewal risk; vulnerable to traffic risk and other challenges pertaining to toll operation business – 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. 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. Further, this exposes SSE to traffic risk, leakage of toll-paying traffic, or diversion of traffic to alternative routes and user resistance to pay/accept increase in toll rates. The firm is also susceptible to challenges in terms of handling local issues, manpower management and toll management, which remains the key for satisfactory toll operations.

Liquidity position: Adequate

SSE's liquidity position is adequate with cushion in working capital limits and sizeable cash balance. It has unencumbered cash balances of Rs. 19.52 crore and cushion of Rs. 9.1 crore in working capital limits as of October 2023. 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 supports its liquidity position.

Rating sensitivities

Positive factors – ICRA could upgrade SSE’s rating if there is a sustained growth in revenues and earnings, along with improvement in debt coverage metrics and liquidity profile on a consistent basis. 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 and coverage metrics. Specific credit metrics for a rating downgrade 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 company

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 and has presence in 8 states.

Key financial indicators (audited)

	FY2022	FY2023
Operating income	951.3	1792.3
PAT	19.2	46.1
OPBDIT/OI	4.1%	4.7%
PAT/OI	2.0%	2.6%
Total outside liabilities/Tangible net worth (times)	0.9	0.7
Total debt/OPBDIT (times)	1.7	1.0
Interest coverage (times)	3.3	6.0

Source: ICRA Research; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as on Sep 30, 2023 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Dec 27, 2023	Sep 01, 2022	-	-
1 Non-fund based – Bank guarantee	Long-term	100.00	-	[ICRA]BBB-(Positive)	-	-	-
2 Fund-based limits	Long-term	85.00	-	[ICRA]BBB-(Positive)	-	-	-
3 Fund-based – Overdraft	Long-term	10.00	-	[ICRA]BBB-(Positive)	-	-	-
4 Unallocated limits	Long term	20.0	-	-	[ICRA]BBB-(Stable)	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Non-fund based – Bank guarantee	Very Simple
Long-term – Fund-based limits	Simple
Long-term – Fund-based – Overdraft	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	Non-fund based – Bank guarantee	-	-	-	100.00	[ICRA]BBB-(Positive)
NA	Fund-based limits	-	-	-	85.00	[ICRA]BBB-(Positive)
NA	Fund-based – Overdraft	-	-	-	10.00	[ICRA]BBB-(Positive)

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

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