

January 22, 2024

SRC Infra Developers Pvt Ltd: Ratings upgraded

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based facilities	60.00	60.00	[ICRA]BBB+(Stable); Upgraded from [ICRA]BBB(Stable)
Long-term/short-term – Non-fund based facilities	540.00	540.00	[ICRA]BBB+(Stable)/[ICRA]A2; Upgraded from [ICRA]BBB(Stable)/[ICRA]A3+
Total	600.00	600.00	

*Instrument details are provided in Annexure I

Rationale

The rating upgrade for SRC Infra Developers Pvt Ltd (SRC) factors in the healthy improvement in the operating margins to 15.4% in FY2023 from 12.8% in FY2022 and consequent impact on company's coverage metrics which is expected to further improve in FY2024e. ICRA expects the revenues to grow by more than 40% for FY2024, supported by healthy order book position of Rs. 3,516.7 crore (5.04 times of its operating income or OI in FY2023) as on December 23, 2023. As on December 31, 2023, the company has achieved gross billings of ~Rs. 1,200 crore. Operating leverage benefits and cost optimisation stemming from work on continuous stretches has supported margin expansion during FY2023, and the operating margins are likely to remain above 14% in the medium term. Company has replaced some of its interest-bearing mobilization advances with relatively low-cost project specific funding thereby resulting in lower interest cost which along with healthy operating profits has resulted in improved coverage metrics with interest cover expected to remain above 5.0 times in the medium term. Further, the ratings factor in the reputed client profile with the National Highways Authority India (NHAI) accounting for 66% of orders, which is expected to result in a comfortable cash conversion cycle. ICRA also notes SRC's established track record of over two decades in executing road and irrigation projects in Andhra Pradesh and Karnataka. in scale of operations

The ratings are, however, constrained by the company's moderate financial risk profile with TOL/TNW of 1.8 times as on March 31, 2023 and debt service coverage ratio (DSCR) of 1.4 times in FY2023 owing to high debt levels and short tenure (2-3 years) debt maturity. Moreover, SRC has given corporate guarantee towards the borrowing programme of its hybrid annuity (HAM) special purpose vehicle (SPV) for its entire concession period, including which, its TOL/TNW stands at 2.2 times in FY2024e. Nonetheless, the leverage and coverage metrics are expected to improve in the medium term, supported by increase in scale of operations and improvement in operating margins and net-worth position. ICRA notes that sizeable retention money of ~Rs. 114 crore as on March 31, 2023 (with a large portion due from Government of Andhra Pradesh departments) is pending to be realised. Further, SRC has equity commitment of Rs. 101.62 crore over FY2023-FY2025 towards the HAM project, of which Rs. 67 crore is already infused as of December 2023. This has constrained its liquidity position to an extent, resulting in high average working capital utilisation over the past 12 months. Any incremental BOT/developmental project in the near to medium term which could materially impact liquidity position will be a credit negative and will remain a key monitorable. The company is exposed to high segment concentration risk, as the road and layout works contributed to 84% of the outstanding order book as on December 31, 2023. A sizeable share (~39%) of the order book is still in the nascent stage (<20% executed), which exposes it to execution risk. However, ICRA notes that majority of these orders were awarded in the current fiscal and hence the progress is relatively low. The company's ability to significantly ramp-up its operations remain crucial to complete its projects in a timely manner, without any cost overrun or penalties from customers. The ratings note the stiff competition in the construction sector, which could put pressure on the new order inflows and its exposure to sizeable contingent liabilities in the form of bank guarantees, mainly for contractual performance, mobilisation advance and material advances. Nonetheless, ICRA draws comfort from its execution track record and absence of invocation of guarantees in the past.

The Stable outlook reflects ICRA's opinion that SRC will be able to sustain the revenue growth and operating margins on the back of healthy order book position, resulting in improvement in leverage and debt coverage metrics.

Key rating drivers and their description

Credit strengths

Healthy order book position provides medium-term revenue visibility – SRC has a healthy order book position of nearly Rs. 3,516.7 crore as on December 23, 2023, translating to 5.04 times of its OI in FY2023, providing medium-term revenue visibility. The company has added more than Rs. 1,600 crore of orders in 9M FY2024, which supported its order book position. SRC has more than two decades of experience in executing road projects for key authorities like the NHAI and Ministry of Road Transport and Highways (MoRTH). Further, the company has a track record of completing the projects ahead of the schedule providing comfort.

Strong revenue growth expected to sustain in medium term – The company's revenues increased to Rs. 697.6 crore in FY2023 from Rs. 666.1 crore in FY2022. Further, it has achieved gross billings of ~Rs. 1,200 crore till December 2023 and expects the revenues to grow by more than 40% for FY2024. The growth is expected to sustain in the medium term, supported by healthy order book position and satisfactory progress across key projects in the order book.

Reputed client profile – The company executes majority of the works for reputed clients including the NHAI, MoRTH, and Bengaluru Development Authority (BDA) resulting in low counterparty credit risk. The Central Government projects account for 75% of the pending order book as on December 23, 2023 and are expected to remain in the similar levels as the company is focusing on bidding for EPC contracts from NHAI. Further, timely receipt of payments from these clients has kept the working capital intensity at moderate levels.

Credit challenges

Moderate financial risk profile – The company's financial risk profile is moderate with TOL/TNW of 1.8 times as on March 31, 2023 and DSCR of 1.4 times for FY2023 owing to high debt levels and short tenure (2-3 years) debt maturity. Moreover, SRC has given corporate guarantee towards borrowing programme of its HAM SPV for its entire concession period, including which, its TOL/TNW stands at 2.2 times in FY2024e. However, its leverage and debt coverage metrics are expected to improve in the medium term, driven by an increase in the scale of operations, operating margins and net-worth position. The operating margins improved to above 15.4% in FY2023 from 12.8% in FY2022 on account of increased scale of operations and cost optimisation arising from work on continuous stretches. The same is expected to sustain in the medium term.

Sizeable equity commitments and retention money constraining its liquidity position – The company has sizeable equity commitment of Rs. 101.62 crore towards the under-construction SPV, SRC Infra Anantapur-Muchukota HAM Private Limited, wherein it has already infused Rs. 67 crore as on December 31, 2023, with the balance expected to be infused by FY2025. Any further exposure to development projects (under BOT/HAM model), which increases the company's funding commitments and adversely impacts its liquidity position would remain a key rating monitorable. Although SRC has limited experience in BOT road project execution, its track record of completing the road projects within the stipulated time manner will mitigate the risk to an extent. In addition, given healthy order-book at present, the company has no plans of bidding for HAM projects in the near term also mitigates any incremental financing risk to an extent. Further, the company has sizeable retention money of Rs. 114.1 crore as on March 31, 2023, largely from the Government of Andhra Pradesh, which has constrained the liquidity position resulting in high average utilisation of fund-based limits at 87% in the past 12 months ending November 2023. The increased working capital requirements are met by availing interest-free mobilisation advances, project-specific loans, and creditors. Therefore, realisation of the retention money remains the key rating monitorable to improve its overall liquidity position.

Order book exposed to concentration risk – The company faces high client concentration with orders from NHAI accounting for 66% of the unexecuted order book and high geographical concentration with the entire order from two states (Andhra

Pradesh and Karnataka) as on December 31, 2023. However, most of these projects are sponsored by the Central Government departments like NHAI and MoRTH minimising the funding risk. Further, satisfactory progress across major projects and timely realisation of bills provide comfort.

Liquidity position: Adequate

The company's liquidity position is adequate with average utilisation of working capital limits at around 87% in the past 12 months ending November 2023. It has debt repayment obligations of Rs. 50-55 crore in FY2024 and equity investment of Rs. 45.09 crore in FY2024 for the newly received HAM project, which can be comfortably met from its estimated cash flow from operations. Further, SRC has moderate capex plans of Rs. 20-25 crore over the next two years for purchasing new machinery and execution of the ongoing projects, which will be funded primarily by debt. The receipt of retention money can improve its overall liquidity position.

Rating sensitivities

Positive factors – ICRA may upgrade the ratings if the company sustains its scale of operations with improvement in operating margins resulting in an improved liquidity position. Specific triggers for a rating upgrade include DSCR improving to more than 1.8 times on a sustained basis.

Negative factors – ICRA could downgrade the ratings if there is any slowdown in order execution or delay in payments resulting in deterioration of profitability margins and its liquidity position. Specific triggers for a rating downgrade include DSCR decreasing to less than 1.4 times on a sustained basis. Additionally, any sizeable investment towards any new BOT projects, which adversely affects its coverage metrics and liquidity profile, may result in a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Construction Entities
Parent/group support	Not applicable
Consolidation/standalone	For arriving at the ratings, ICRA has consolidated the financial of SRC and its subsidiary, SRC Infra Anantapur-Muchukota HAM Private Limited

About the company

SRC Infra Developers Pvt Ltd was initially established in 1998 as a partnership firm under the name S R Constructions. Later it was reconstituted as a private limited company on May 15, 2019. It is primarily involved in executing EPC contracts and infrastructure development of highways, roads, bridges, and irrigation projects. SRC Infra primarily undertakes EPC projects for many reputed clients including the NHAI, MoRTH and various state government departments of Andhra Pradesh and Karnataka. SRC was awarded a HAM project involving four laning works of a 36.84-km long road stretch connecting Anantapur - Muchukota stretch in Andhra Pradesh for a bid project cost of Rs. 676.36 crore. The company is undertaking the project through its 100% subsidiary, SRC Infra Anantapur-Muchukota HAM Private Limited and has an equity requirement of Rs. 101.62 crore, of which Rs. 67 crore has been infused as of December 2023. The company has signed the concession agreement on January 18, 2023 and received appointed date on July 24, 2023.

Key financial indicators (audited)

	FY2022	FY2023
Operating income (Rs. crore)	666.1	697.6
PAT (Rs. crore)	31.4	47.3
OPBDIT/OI (%)	12.8%	15.4%
PAT/OI (%)	4.7%	6.8%
Total outside liabilities/Tangible net worth (times)	2.2	1.8
Total debt/OPBDIT (times)	2.2	2.1
Interest coverage (times)	2.8	3.8

Source: ICRA Research, SRC; 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 (FY2024)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Dec 31, 2022 (Rs. crore)	Date & Rating in	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					January 22, 2024			
1	Fund-based facilities	Long-term	60.00	NA	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	-	-
2	Non-fund Based facilities	Long-term/short term	540.00	NA	[ICRA]BBB+ (Stable)/[ICRA]A2	[ICRA]BBB (Stable)/[ICRA]A3+	-	-

Note: Amount in Rs. crore

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based facilities	Simple
Long-term/Short-term – Non-fund based facilities	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 facilities	-	-	-	60.00	[ICRA]BBB+ (Stable)
NA	Non-fund-based facilities	-	-	-	540.00	[ICRA]BBB+ (Stable)/[ICRA]A2

Source: Company; amount in Rs. crore

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

Annexure II: List of entities considered for consolidated analysis

Company	Ownership	Consolidation Approach
SRC Infra Anantapur-Muchukota Ham Private Limited	100%	Full Consolidation

Source: Company

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