

April 05, 2024

Sudhakara Infratech Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term: Fund-based/CC	80.0	80.0	[ICRA]BBB+ (Stable); reaffirmed
Long-term/Short-term: Non-fund based	320.0	320.0	[ICRA]BBB+ (Stable)/[ICRA]A2; reaffirmed
Total	400.0	400.0	

*Instrument details are provided in Annexure I

Rationale

The ratings reaffirmation favourably factors in Sudhakara Infratech Private Limited's (SIPL) healthy scale of operations with revenues improving to Rs. 953.48 crore in 10M FY2024 from Rs. 402.04 crore in 10M FY2023, on the back of improved order execution. ICRA expects the revenue growth to sustain in the medium term, on the back of healthy order book of Rs. 2,881.64 crore as on January 31, 2024. The ratings consider the improved order book profile with 62% of orders from Jal Jeevan Mission projects and Central Government agencies with the balance from various state governments, which reduces the counterparty risk to an extent. The ratings also factor in SIPL's adequate debt coverage metrics with estimated interest coverage ratio of above 6 times for FY2024 and geographically diversified order book, with projects spread across more than 10 states.

The ratings are, however, constrained by the high project concentration risk, with top-five orders accounting for 56% of the total order book as on January 31, 2024. Further, SIPL is exposed to execution risk, as 32% of the order book is in the nascent stages of execution (<10% executed as on January 31, 2024). However, most of these works are newly awarded and the company's ability to significantly ramp-up its operations to complete its projects in a timely manner will be a key rating monitorable. The ratings are also constrained by SIPL's modest profitability margins and high overall indebtedness with TOL/TNW of 1.43 times as on December 31, 2023. Given a substantial increase in scale of operations, the company has funded a large portion of its incremental working capital requirement through extended credit period from its vendors/suppliers, resulting in leveraged capital structure (high TOL/TNW) which is likely to continue over the medium term. The company has price-escalation clauses in its contracts; however, the company's profitability remains exposed to the heightened competition in the Central Government-funded contracts and the sharp rise in key input materials (viz., steel, cement, etc.), as price escalations are passed to customer with a lag. The ratings also 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 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 SIPL will be able to sustain its scale of operations, supported by healthy order book position and timely receipt of payments from its key customers.

Key rating drivers and their description

Credit strengths

Healthy order book provides medium-term revenue visibility - The company's order book remained strong at Rs. 2,881.64 crore as on January 31, 2024, driven by healthy order addition of Rs. 1,851.02 crore in 10M FY2024. With these new orders, the order book stood at 4.6 times of FY2023 revenue operating income, providing medium-term revenue visibility. Further, the revenues have improved substantially to Rs. 953.48 crore in 10M FY2024 from Rs. 402.04 crore in 10M FY2023, on the

back of healthy order execution. The growth is expected to sustain in the near term driven by improved order book and execution.

Geographically diversified order book - The order book is geographically diversified as it is spread across more than 10 states. The company has major works in Jharkhand, Uttar Pradesh, and Andhra Pradesh, which together account for ~70% of the order book. Further, the order book is significantly concentrated on water-supply works, which account for 73% of the outstanding orders as on January 31, 2024. Majority of these projects are under Jal Jeevan Mission and timely payment realisation is expected to support its execution in the near term.

Reputed client profile - The company is majorly executing the projects under Jal Jeevan Mission, which are 50% funded by the Central Government. Apart from those, the company has National Highways and Infrastructure Development Corporation Limited, Greater Hyderabad Municipal Corporation, and various state governments and Central Government departments as its key customers. This reduces the counterparty risk to a large extent. Further, the projects from state governments are funded by multilateral agencies reducing the risk of payment delays, to an extent, and thereby supporting its liquidity position.

Credit challenges

Modest operating margins and high leverage levels - SIPL's operating margins remained modest at 8.09% in FY2023 and 10M FY2024 and are expected to be at 8-9% levels owing to high sub-contracting expenses. The TOL/TNW stood high at 1.43 times as on December 31, 2023, owing to high sub-contracting and creditor payables and are expected to remain high at above 1.6 times in the near term.

Moderate project concentration risk - The company has moderate project concentration risk with top-five projects accounting for 56% of the total order book as on January 31, 2024. Any delays in execution or receipt of payments can affect its revenues and liquidity position. Further, 32% of the order book is in the nascent stages of execution (<10% executed as of March 2023). However, most of these works are newly awarded orders and the company's ability to significantly ramp-up its operations to complete its projects in a timely manner will be a key rating monitorable.

Competitive business environment to keep margins under check - The civil construction segment is characterised by stiff competition on account of the low complexity of work involved and minimal entry barriers in terms of qualifications required for the tenders floated. This results in the presence of a large number of contractors in this segment, leading to intensely competitive bids, putting pressure on margins. Further, the margin is exposed to volatility in raw material prices. However, the built-in price-variation clause in the contracts mitigates the risk to an extent.

Liquidity position: Adequate

The liquidity position remains adequate, with free cash of ~Rs. 15 crore as on January 31, 2024 and a cushion of ~Rs. 13 crore in fund-based limits as on February 29, 2024. The average fund-based utilisation was moderate at 27% between April 2023 and February 2024 and the recent enhancements in working capital limits is expected to support its liquidity position and order inflow in the near term. Further, the company has moderate capex plans of ~Rs. 7.5 crore (through external debt) and repayments of ~Rs. 20 crore in FY2025, which can be comfortably met from the estimated cash flows. The company has sizeable retention money from the authorities and timely receipt of these payments is crucial to improvement in the liquidity position.

Rating sensitivities

Positive factors: ICRA could upgrade the ratings, if the company demonstrates a sustained and significant improvement in its scale of operations and profitability margins, resulting in an improvement in debt coverage and leverage metrics and liquidity position.

Negative factors: Pressure on SIPL's ratings could arise, if any slowdown in order execution or decrease in profitability margin results in a material decline in cash flows. Moreover, any stretch in the working capital cycle, which could weaken the liquidity position, would also be a negative trigger. Specific credit metrics that may lead to a downgrade of SIPL's ratings include interest coverage ratio lower than 3.5 times and/or TOL/TNW of more than 2 times, on a sustained basis.

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 financial statements

About the company

Sudhakara Infratech Private Limited was established by Mr. A. Sudhakara Reddy and his family members in 2010 and is engaged in civil construction and related works. The company executes a diverse range of civil works including water-supply works, drainage pipeline works, building, irrigation, and road works. SIPL has a team of qualified engineers and supervisors for timely execution of the projects.

Key financial indicators

	FY2022	FY2023	9M FY2024*
Operating income	484.64	630.06	836.70
PAT	19.52	25.81	34.64
OPBDIT/OI	7.52%	8.09%	8.03%
PAT/OI	4.01%	4.10%	4.14%
Total outside liabilities/Tangible net worth (times)	2.28	1.87	1.43
Total debt/OPBDIT (times)	0.86	1.02	0.50
Interest coverage (times)	4.47	5.04	6.17

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amounts in Rs. crore; *provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2025)				Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024		Date & Rating in FY2023	Date & Rating in FY2022
					April 05, 2024	December 29, 2023	June 16, 2023	June 17, 2022	Aug 12, 2021
1	Fund-based/CC	Long-term	80.00	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Positive)
2	Non-fund Based	Long-term/Short term	320.00	-	[ICRA]BBB+ (Stable) / [ICRA]A2	[ICRA]BBB+ (Stable) / [ICRA]A2	-	-	-
3	Non-fund Based	Long-term	-	-	-	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Positive)

4	Unallocated Limits	Long-term/Short term	-	-	-	-	[ICRA]BBB+ (Stable) / [ICRA]A2	[ICRA]BBB+ (Stable) / [ICRA]A2	[ICRA]BBB (Positive)/ [ICRA]A3+
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Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term - fund based/CC	Simple
Long-term – non-fund-based	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/CC	-	-	-	80.00	[ICRA]BBB+ (Stable)
NA	Non-fund Based	-	-	-	320.00	[ICRA]BBB+ (Stable)/[ICRA]A2

[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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About ICRA Limited:

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Branches



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