June 28, 2024

SRC Projects Private Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based/CC	10.00	30.00	[ICRA]BBB (Stable); reaffirmed/ assigned for enhanced amount
Long-term – Fund-based/TL	13.12	11.94	[ICRA]BBB (Stable); reaffirmed
Short-term – non-fund based	40.00	85.00	[ICRA]A3+; reaffirmed/ assigned for enhanced amount
Total	**63.12**	**126.94**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings reaffirmation for SRC Projects Private Limited (SPPL) favourably factors in its comfortable financial profile, supported by low leverage (total outside liabilities to tangible net worth (TOL/TNW) of <0.5x), adequate liquidity (free cash of Rs. 73 crore as on March 31, 2024) and healthy coverage indicators (interest cover of ~20 times as on March 31, 2024). The ratings consider the extensive experience of the promoters in the construction segment and the company's operational track record, which helps it secure repeat orders from reputed private customers and mitigates the counterparty risk to an extent.

SPPL witnessed a 21% YoY growth in operating income (OI) to ~Rs. 301 crore in FY2024. However, the same was uplifted by a settlement receipt of ~Rs. 43 crore (net of GST) from the NHAI in March 2024 for past disputed claims. Barring the same, the OI saw a flattish 4% YoY growth. An order book position of ~Rs. 219 crore as on June 6, 2024 provides adequate near-term revenue visibility and will drive about 10-12% revenue growth in FY2025. The operating margins, net of the NHAI award, moderated to ~10% in FY2024, impacted by higher share of sub-contracting expenses, raw material and freight cost and one-off items pertaining to past VAT settlement and royalty payments for quarries (with licences due to expire). The declining operating margin of SPPL over the last three years (from 18.6% in FY2022) remains a challenge. The company's ability to consistently build-up its OB to sustain its scale of operations, improve profitability while prudently managing its working capital and liquidity will be a key monitorable. SPPL's leverage and coverage metrics are likely to remain comfortable over the medium term with no plans of any major debt-funded capex and steady improvement in revenues.

The ratings remain constrained by the company's moderate scale of operations (despite YoY growth) and highly concentrated order book across geography (75% works in Tamil Nadu), customers and projects (top three customers and top five projects accounted for 60% and 66% of outstanding order book, respectively, as of June 6, 2024). The ratings also note the high execution risks faced by the company, with nearly 50% of its order book in nascent stages of execution (work yet to be started). This apart, the ratings are constrained by the regulatory risk in the sand manufacturing/boulder mining business, which could have a bearing on its profitability. The profit margins are also vulnerable to timely renewal of mining license for quarries (3 of 6 expired in FY2024) and improving sale from the mining segment. The ratings factor in the company's exposure to contingent liabilities in the form of bank guarantees (BGs). Nonetheless, ICRA draws comfort from SPPL's favourable execution track record and no crystallisation of BGs in the past. The ratings also consider the intense competition faced by the company from other players in the construction segment, which could limit its ability to scale-up its operations at a healthy pace.

The Stable outlook reflects ICRA's expectations that the company will benefit from its adequate order book position, comfortable capital structure and liquidity position. Further, the outlook underlines ICRA's expectations that its incremental capex, if any, will be funded in a manner that it is able to durably maintain its debt protection metrics.

Key rating drivers and their description

Credit strengths

Favourable financial profile – SPPL's financial profile is characterised by a conservative capital structure, comfortable coverage indicators and adequate liquidity. Its leverage (total outside liabilities/tangible net worth (TOL/TNW)) remained low, in the range of 0.4-0.3 times during FY2023-FY2024, supported by limited reliance on external borrowings and considerable net worth (Rs. 204.8 crore as on March 31, 2024, as per provisional results). Its coverage metrics have been healthy in the past, given its robust profitability and relatively lower debt obligations with interest coverage at ~20 times and DSCR above 7 times in FY2024. Going forward, while profitability margins are expected to moderate vis-à-vis historic levels (given the increase in the construction segment business and related sub-contracting works which entail lower margin), with limited capex or investment plans, the coverage metrics are expected to remain comfortable.

Adequate order book position – The company's pending order book stood at ~Rs. 219 crore as of June 2023 (1.2x of FY2024 construction segment revenues). It additionally has orders worth Rs. 676 crore in the pipeline, out of which Rs. 161 crore has been finalised (documentation pending). The same provides healthy near-term revenue visibility. Nevertheless, its ability to secure projects consistently, amid the prevailing competition, remains the key to attain healthy revenue growth and a key credit monitorable.

Established operational track record and long association with renowned customers – The company has been in business since 1964 and has an established operational track record. Under the construction segment, it mainly caters to private sector players. It has long associations with its key customers such as JSW Steel Limited and Mahindra and Mahindra Limited, among others. Although its clientele is mainly private entities, key customers are reputed, having moderate-to-strong financial profiles, which provide comfort and limit the counterparty risk to an extent.

Extensive experience of promoters – The company's key promoters are Dr. Mahudeswaran and Mr. Ramasamy Ganesan, who have over four decades of experience in the construction business. The promoters are involved in the company's day-to-day operations and SPPL benefits from their long experience.

Credit challenges

Moderate scale of operations – SPPL's revenues (excluding one-off award income in FY2024) have remained moderate, at around Rs. 250 crore, despite a long track record and healthy improvement in the last two years. Besides, the revenues have been volatile in the past, owing to fluctuations in the company's construction segment income. In FY2025, it is expected to report healthy growth, given the sizeable order book in the construction segment (over 35% YoY). Nonetheless, SPPL remains vulnerable to risks associated with the cyclicality in private sector capex. Its ability to sustain its revenues at such levels and attain further growth will be a credit monitorable.

High business concentration – The company's construction segment operations are highly concentrated across geography and customers. Its order book position as of June 2024 is 75% concentrated in Tamil Nadu. Besides, the top 3 customers accounted for nearly 55% of the company's pending order book. Nonetheless, given SPPL's long-term associations with its key customers for nearly one to two decades, it receives repeat orders, thereby mitigating the concentration risk to an extent.

Execution risks, exposure to contingent liabilities and competition – SPPL is exposed to the execution risks in construction contracts, with nearly 50% of its pending order book in the nascent stages of execution (0% of completion) in June 2024. The company is also susceptible to the risk of sizeable contingent liabilities in the form of BGs (~Rs. 36 crore as of March 31, 2024). Nonetheless, a favourable execution track record and no instances of crystallisation of BGs in the past provide comfort. Besides, the company faces stiff competition in the construction space because of a tender-based contract awarding system and the presence of multiple players in the segment, which constrain earnings growth.

Regulatory risks associated with M-sand segment – SPPL derives partial revenues from its manufacturing segment, wherein it sells manufactured sand (M-sand), stone aggregates, and gravel. This segment accounted nearly 30% of the company's overall revenues in FY2023 and FY2024. While it has long-term mining licenses for three quarries that cater to its crushing facilities, it is exposed to regulatory risks pertaining to renewal of those licenses. ICRA notes that three out of its six quarry licences expired during FY2024 and await renewal.

Liquidity position: Adequate

The company's liquidity is expected to remain adequate, with healthy cash flows from operations supported by availability of adequate buffer in its working capital facilities and healthy free cash balances. SPPL's unencumbered cash balances stood at ~Rs. 73 crore as on March 31, 2024. The average utilisation of its secured overdraft facility stood at 54% during April 2023 to May 2024. The company has term loan repayment obligations of Rs. 4.6 crore in FY2025 and Rs. Rs. 2.7 crore for FY2026 and modest capex plans; its operational cash flows are likely to remain adequate for meeting the same and incremental working capital requirements.

Rating sensitivities

Positive factors – ICRA could upgrade SPPL's ratings if there is a sustained improvement in its scale of operations, supported by healthy order accretion and timely execution, while maintaining its profitability and coverage indicators at healthy levels and attaining improved business diversification.

Negative factors – The ratings may be downgraded if lower order accretion and/or slower execution results in significantly lower revenues or material deterioration in profitability and coverage indicators.

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 financials

About the company

SRC Projects Private Limited was initially set up as a partnership firm in 1964, under the name Sri Ranganathar & Co. It was later incorporated as a private limited company in 2002. It undertakes civil construction work, such as industrial buildings, structures, test tracks, and cooling towers, among others. The company generates partial revenues from its manufacturing segment, whereby it sells M-sand, stone aggregates, and gravel. It has three crushing units in Tamil Nadu – one each in Cheyyar (Tiruvannamalai), Panamarathupatti (Salem) and Elaneerkundram (near Cheyyar), each with a crushing capacity of 350 MT per hour. The company's key promoters, Dr. Mahudeshwaran and Mr. Ramasamy Ganesan, have an experience of over four decades in the construction segment.

Key financial indicators (audited)

SPPL (Standalone)	FY2022	FY2023	FY2024*
Operating income (Rs. crore)	162.6	249.0	301.5
PAT (Rs. Crore)	18.2	27.0	45.5
OPBDIT/OI	18.6%	17.5%	23.0%
PAT/OI	11.2%	10.8%	15.1%
Total outside liabilities/Tangible net worth (times)	0.3	0.4	0.3
Total debt/OPBDIT (times)	0.5	0.7	0.4
Interest coverage (times)	35.9	20.3	20.2

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations*

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 (FY2025)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of May 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
					Jun 28, 2024	-	March 08, 2023	-
1	**Fund-based - CC/OD**	Long-term	30.00	-	[ICRA]BBB (Stable)	-	[ICRA]BBB (Stable)	-
2	**Term loan**	Long-term	11.94	10.49	[ICRA]BBB (Stable)	-	[ICRA]BBB (Stable)	-
3	**Bank guarantee**	Short-term	85.00	-	[ICRA]A3+	-	[ICRA]A3+	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based-CC/OD	Simple
Term loan	Simple
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	**Fund-based working capital facility**	NA	NA	NA	30.00	[ICRA]BBB (Stable)
NA	**Term loans**	July 2022	NA	July 2030	11.94	[ICRA]BBB (Stable)
NA	**Non-fund based facility – Bank guarantee**	NA	NA	NA	85.00	[ICRA]A3+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

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

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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.

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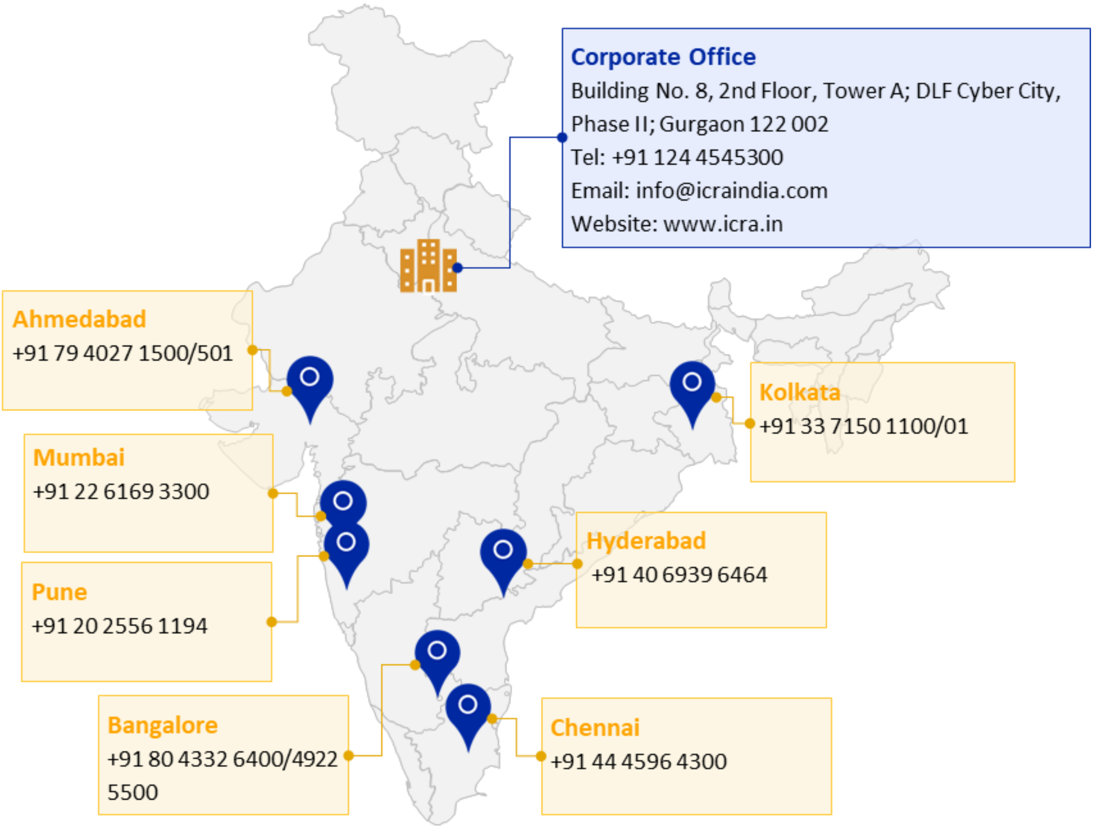

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