August 21, 2024

Sai Eternal Foundation: Long-term rating upgraded and removed from Issuer Non-Cooperating Category; short-term rating assigned; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term loan	35.00	171.89	[ICRA]BB(Stable); Upgraded from [ICRA]B+ (Stable) and removed from 'Issuer Not Cooperating' Category and assigned for enhanced amount
Long-term – Fund-based – Cash credit	-	3.00	[ICRA]BB (Stable); assigned
Long-term/ Short-term – Non-fund based – Bank guarantee	-	25.11	[ICRA]BB (Stable)/ [ICRA]A4; assigned
Total	**35.00**	**200.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings of Sai Eternal Foundation (SEF) has been removed from the Issuer Not Cooperating category and the long-term rating has been upgraded. The rating action is attributable to the cooperation from the company in sharing the required information. The ratings reflect the healthy increase in its scale of operations over the past five years (CAGR of ~37% during FY2019-2024), supported by healthy order addition and execution. The company has longstanding experience in the civil construction and hydro power projects construction and maintenance business, reputed clientele (which helps in securing incremental business) and a healthy financial profile, with robust operating margins (over 20% in last 4 years), comfortable leverage (TOL/TNW at around 0.3 times as on March 31, 2024) and satisfactory debt coverage metrics (interest coverage of 5.8 times in FY2024). The ratings derive comfort from SEF's offtake arrangement with the Himachal Pradesh State Electricity Board (HPSEB) for a tenure of 40 years for operational power projects, which provides revenue visibility.

SEF reported an increase in its turnover in FY2024 to Rs. 93.3 crore (24% YoY growth) on the back of healthy execution of the pending orders, which is likely to sustain in FY2025. It saw significant order inflow in Q4 FY2024, which is to be executed over a 2-3-year horizon. With an outstanding order book (OB) of Rs. 412.0 crore as on March 31, 2024, the adjusted[1] OB to operating income (OB/OI) stood at around 5.4 times, necessitating a ramp-up in the pace of execution. The company's comfortable operating margins are currently supported by the revenue accruing from the operational power projects, where operations and maintenance costs remain significantly lower. These are, however, expected to moderate with increasing share of engineering procurement and construction (EPC) segment in the overall revenues. The company's ability to maintain healthy order inflow and sustain its profitability will be a key monitorable.

The strengths are offset by SEF's modest scale of operations, concentrated OB (with top five projects accounting for ~94%) and execution risks (~76% of orders in hand (by residual order value) in the nascent stages of execution – less than 25% progress). However, ICRA draws comfort from SEF's track record in the construction business and successful completion of projects within time and budget. ICRA has factored in the company's exposure to three hybrid annuity model (HAM) ropeway projects from the National Highways Logistics Management Limited {(NHLML, wholly-owned subsidiary of National Highways Authority of India (NHAI, rated [ICRA]AAA(Stable)/[ICRA]A1+)}, which are being developed in separate special purpose vehicles (SPVs) and will be exposed to project implementation risks. SEF will be required to make sizeable investments, amounting to

[1] *Adjusted for operating income generated from operational power projects*

~Rs. 33 crore in these three SPVs during FY2025-FY2027. Additionally, the company is undertaking the execution of multiple power projects under build, operate and transfer (BOT) mode with long concession period of 40 years, which shall entail equity commitments for a longer horizon and create an asset-liability mismatch. Given the increasing scale of operations and equity commitments such projects entail, SEF's ability to judiciously manage its working capital cycle and keep up its execution remain important from the credit perspective. The ratings consider the intense competition and fragmented nature of the industry, which could constrain its profitability vis-à-vis the earlier circumstances where it was supported by lower competition in the hilly terrains. The ratings also note the company's exposure to sizeable contingent liabilities in the form of bank guarantees, primarily for contractual performance. Nonetheless, ICRA draws comfort from SEF's execution track record and absence of invocation of guarantees in the past.

The Stable outlook on the rating reflects ICRA's expectation that SEF will be able to maintain its credit profile over the medium term, supported by orders-in-hand and moderate leverage position. Further, the outlook underlines ICRA's expectations that the company's incremental capex and/or investment requirements would be funded in a manner that is able to durably maintain its debt protection metrics, commensurate with the existing ratings.

Key rating drivers and their description

Credit strengths

Long track record of execution of civil construction and power projects in Himachal Pradesh – With experience of more than three decades in the construction industry, the company has been executing civil projects for various customers including Public Works Department (PWD) – Himachal Pradesh, Shimla Jal Prabandhan Nigam Limited (SJPNL), etc. This apart, it has a technical team of qualified and experienced professionals. The current order book comprises orders from reputed public sector entities with a low counterparty credit risk viz. NHLML, PWD Himachal Pradesh, THDC India Limited, etc.

Comfortable leverage and coverage metrics – SEF witnessed a healthy growth of ~24% in its OI in FY2024 to Rs. 93.3 crore, with operating profitability margins of 25.5%. Its financial risk profile remains comfortable with leverage (TOL/TNW) of 0.3 times as on March 31, 2024. In FY2024, the external debt declined to Rs. 36.7 crore as on March 31, 2024 (from Rs. 44.9 crore as on March 31, 2023). The debt coverage indicators remained healthy, with interest coverage of ~5.8 times in FY2024. The leverage and coverage metrics are likely to moderate in the near to medium term with anticipated increase in external debt. However, the same will remain comfortable, supported by healthy scale of operations and margins and a stable working capital cycle.

Credit challenges

Modest scale of operations; concentrated order book and execution risks – The company clocked revenues of Rs. 93.3 crore in FY2024 (provisional), vis-à-vis Rs. 75.1 crore in FY2023, though its scale remains small. While a strong order book of Rs. 412 crore, as on March 31, 2024, provides revenue visibility over the medium term, execution ramp-up remains crucial. Further, the company's order book remains exposed to project concentration and execution risk as the top five projects accounted for ~94% of the order book (as on March 31, 2024) and ~76% of orders were in the nascent stages (with less than 25% progress). Moreover, three projects under the HAM mode are yet to receive the appointed date.

Sizeable equity commitments towards power and developmental projects – The company has taken up three ropeway HAM projects from the NHLML, which are being undertaken in separate SPVs (concession agreement is yet to be signed) and will be exposed to project implementation risks. SEF is required to make sizeable equity investments of ~Rs. 33 crore in these three SPVs during FY2025-FY2027. Additionally, the company is undertaking the execution of multiple power projects under BOT mode, with long concession period of 40 years, which shall entail equity commitments for long horizon and likely lead to asset-liability mismatch. Any significant cost overruns in the existing developmental projects or addition of new developmental projects in the OB leading to high equity commitments, could have a bearing on the liquidity. Hence, timely divestment of stake in the completed BOT projects will remain important.

Risks associated with construction sector including non-fund based exposure – SEF is exposed to the cyclicality inherent in the construction industry and intense competition in the tender-based contract award system, resulting in the risk of volatility in order inflows, revenues, and pressure on profit margins. However, its long presence and established relationships with clients, provide comfort. Most of the contracts have the provision for price variation of key raw materials such as cement and steel, which protects the profitability to an extent. It is exposed to sizeable contingent liabilities in the form of BGs, mainly towards performance guarantee (o/s Rs. 46 crore as of June, 2024). Nonetheless, ICRA draws comfort from SEF's healthy execution track record and no invocation of guarantees in the past.

Liquidity position: Adequate

SEF's liquidity is expected to remain adequate with healthy cash flows from operations (~Rs. 15-20 crore in FY2025) and supported by stable working capital cycle and free cash and bank balances (including FDs) of Rs. 3.5 crore as on March 31, 2024. These are likely to be sufficient to meet the debt servicing obligations of ~Rs. 7 crore in FY2025. The company has no major capex plans but has equity commitments of ~Rs. 52 crore towards the recently awarded HAM projects and under-implementation hydro power generation projects, spread over FY2025-FY2027. The estimated cash flows from operations and available liquidity are likely to be sufficient for meeting its financial obligations.

Rating sensitivities

Positive factors – The ratings could be upgraded if SEF demonstrates improvement in its scale of operations and return metrics while sustaining comfortable order book position and debt coverage metrics.

Negative factors – Pressure on the ratings could arise if there are significant delays in project execution, leading to a decline in its scale, operating profitability, or deterioration in its liquidity position, or if there is a considerable increase in commitment towards developmental projects. Further, any stretch in the working capital cycle or its inability to timely enhance its working capital limits could trigger a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Construction
Parent/Group support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financial profile of the company.

About the company

Sai Eternal Foundation (SEF) is a voluntary organisation and non-profit company registered under section 8 of the Companies Act, 2013. Formerly known as Sai Engineering Foundation, it was initially registered in 1990 in accordance with the Societies Registration Act XXI of 1860 and converted into Section 8 company w.e.f. January 07, 2022. The company undertakes commercial activities to generate revenue and cash flows, which are essentially utilised for furtherance of its objectives including charitable activities in the field of health and education, scholarship to economically weaker students, rural reconstruction, etc. It provides technical consultancy, planning, detailed engineering and implementation of infrastructure projects like buildings, complexes, roads, hydro-electric projects, with special focus on hydro power projects. It has executed several power projects in Himachal Pradesh for government entities as well as private developers.

Key financial indicators (audited)

SEF	FY2023	FY2024*
Operating income (Rs. crore)	75.1	93.3
PAT (Rs. crore)	6.5	10.2
OPBDIT/OI (%)	30.3%	25.5%
PAT/OI (%)	8.6%	10.9%
Total outside liabilities/Tangible net worth (times)	0.4	0.3
Total debt/OPBDIT (times)	2.0	1.5
Interest coverage (times)	4.0	5.8

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

OI: Operating income; 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

	Current (FY2025)			Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
Instrument	Type	Amount rated (Rs. crore)	Aug 21, 2024	Date	Rating	Date	Rating	Date	Rating
Fund-based – Term loan	Long-term	171.89	[ICRA]BB (Stable)	18-Jan-2024	[ICRA] B+ (Stable); ISSUER NOT COOPERATING	17-Nov-2022	[ICRA] B+ (Stable); ISSUER NOT COOPERATING	29-Oct-2021	[ICRA] B+ (Stable); ISSUER NOT COOPERATING
Fund-based – Cash credit	Long-term	3.00	[ICRA]BB (Stable)	-	-	-	-	-	-
Non-fund based – Bank guarantee	Long-term/ Short-term	25.11	[ICRA]BB (Stable)/ [ICRA]A4	-	-	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Term loan	Simple
Long-term – Fund-based – Cash credit	Simple
Long-term/ Short-term – 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	**Term loan-I**	FY2019	NA	FY2031	21.23	[ICRA]BB (Stable)
NA	**Term loan-II**	FY2023	NA	FY2039*	13.00	[ICRA]BB (Stable)
NA	**Term loan-III**	NA	NA	NA	137.66	[ICRA]BB (Stable)
NA	**Cash credit**	NA	NA	NA	3.00	[ICRA]BB (Stable)
NA	**Bank guarantee**	NA	NA	NA	25.11	[ICRA]BB (Stable)/ [ICRA]A4

*Source: Company data, ICRA Research; *linked with commercial operations date (COD)*

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 6939 6443
rajeshwar.burla@icraindia.com

Ashish Modani
+91 20 6606 9912
ashish.modani@icraindia.com

Ritu Goswami
+91 124 4545 826
ritu.goswami@icraindia.com

Mrinal Jain
+91 124 4545 863
mrinal.j@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@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.

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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