

October 24, 2024

Sudhakara Infratech Private Limited: Ratings reaffirmed; outlook revised to Positive from Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term: Fund-based/CC	85.0	85.0	[ICRA]BBB+; reaffirmed; outlook revised to Positive from Stable
Long-term/Short-term: Non-fund based	365.0	365.0	[ICRA]BBB+/[ICRA]A2; reaffirmed; outlook revised to Positive from Stable
Total	450.0	450.0	

*Instrument details are provided in Annexure I

Rationale

The rating reaffirmation with revision in outlook to Positive factors in ICRA's expectation that Sudhakara Infratech Private Limited's (SIPL) will be able to sustain and grow its top line in the near term on the back of a strong order book position of Rs. 3,104.06 crore as on June 30, 2024, which translates to 2.52 times of FY2024 revenues. The company reported robust growth in scale of operations to Rs. 1,234.21 crore in FY2024, a 96% growth from Rs. 630.06 crore of revenues in FY2023, on the back of improved order execution. The ratings consider the geographically diversified order book with presence in more than 12 states and SIPL's established operational track record in executing water supply and irrigation projects across multiple states. With ~50% of its order book from the Central Government funded Jal Jeevan Mission projects and Central Government agencies, the company is expected to receive payments in a timely manner, thereby resulting in comfortable cash conversion cycle. The ratings also factor in SIPL's adequate debt coverage metrics with interest coverage ratio of 5.7 times for FY2024 and the same is likely to remain at above 5 times in the near term on the back of sustained operating profits.

The ratings are, however, constrained by the high project concentration risk, with top five orders accounting for 53% of the order book as on June 30, 2024. Further, SIPL is exposed to execution risk, as 46% of the order book is in the nascent stages of execution (<10% executed as on June 30, 2024). However, most of these works are recently awarded and hence the execution pace is expected to be gradual. The company's ability to ramp-up billings in these projects, in a timely manner, will be a key rating monitorable. The ratings are constrained by SIPL's moderate profitability margins at around ~8% owing to high sub-contracting expenses and limited value addition in water supply works. The company funds its working capital requirements largely by creditor and sub-contractor payments, resulting in a relatively leveraged capital structure with TOL/TNW of 1.7 times as on March 31, 2024. The ratings note the stiff competition in the construction sector, which could put pressure on 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.

Key rating drivers and their description

Credit strengths

Healthy order book providing medium-term revenue visibility – The company's order book is healthy at Rs. 3,104.06 crore as on June 30, 2024, driven by healthy order addition of around ~Rs. 1,800 crore during FY2024 – H1 FY2025. Given this, the order book stood at 2.5 times of its revenue in FY2024, providing medium-term revenue visibility. Further, the revenues have improved substantially to Rs. 1,234.21 crore in FY2024 from Rs. 630.06 crore in FY2023, on the back of healthy order execution.

Its revenues are expected to sustain at above Rs. 1,300 crore in the near term, supported by healthy order book position and its execution.

Geographically diversified order book – The company has a diversified presence in more than 12 states, and it has completed projects in multiple states in the past. At present, around 66% of the order book is from Jharkhand, Uttar Pradesh, and Telangana. The majority of the projects in Uttar Pradesh and Jharkhand are executed under Jal Jeevan Mission (JJM), which are 50% funded by the Central Government and 50% by state government, reducing the counterparty risk to a large extent.

Established operational track record – The company has an established operational track record of around 15 years in executing water supply and irrigation projects across the country. At present, the order book is diversified with water supply works accounting for 59% of the outstanding orders, followed by 20% from irrigation works, 20% from building and road segments as on June 30, 2024.

Credit challenges

Moderate operating margins and high leverage levels – The company's operating margins remain moderate at 7.9% in FY2024 and are expected to remain at ~8%, going forward, owing to high sub-contracting expenses and limited value addition in water supply works. The working capital requirements are largely met by creditor and sub-contractor payments resulting in a relatively leveraged capital structure with TOL/TNW of 1.7 times as on March 31, 2024. Further, the share of state government funded projects increased to 33% on June 30, 2024 from 27% on March 31, 2023 with the receipt of orders in Jharkhand and Telangana. Given this, timely realisation for these projects will be a key rating monitorable in the near term.

Moderate project concentration risk – The company has moderate project concentration risk with top five projects accounting for 53% of the total order book as on June 30, 2024. Any delays in execution or receipt of payments can affect its revenues and liquidity position. Further, 46% of the order book is in the nascent stages of execution (<10% executed as of June 2024). However, most of these works are newly awarded orders and the company's ability to significantly improve its billings, 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. The ratings note the company's 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.

Liquidity position: Adequate

The company's liquidity position remains adequate, with free cash of ~Rs. 12.71 crore and a cushion of ~Rs. 24 crore in fund-based limits as on June 30, 2024. The average fund-based utilisation was moderate at 21% during April 2023 to June 2024. Further, it has moderate capex plans of ~Rs. 15-20 crore and repayments of ~Rs. 24 crore in FY2025, which can be comfortably met from the estimated cash flows.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if the company sustains its scale of operations and profitability margins, resulting in an improvement in debt coverage and leverage metrics and liquidity position on a sustained basis. Specific credit metrics that may lead to an upgrade includes TOL/TNW less than 1.4 times, on a sustained basis.

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 working capital cycle, which could weaken the liquidity

position, would 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 1.75 times, on a sustained basis.

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 company's standalone financial statements

About the company

Sudhakar Infratech Private Limited was established by Mr. A. Sudhakar Reddy and his family members in 2010. It undertakes 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 projects.

Key financial indicators

	FY2023	FY2024
Operating income	630.1	1234.2
PAT	25.8	53.5
OPBDIT/OI	8.1%	7.9%
PAT/OI	4.1%	4.3%
Total outside liabilities/Tangible net worth (times)	1.8	1.7
Total debt/OPBDIT (times)	1.0	0.6
Interest coverage (times)	5.0	5.7

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

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)	Date & Rating in FY2025			Date & Rating in FY2024		Date & Rating in FY2023	Date & Rating in FY2022
			October 24, 2024	April 12, 2024	April 05, 2024	December 29, 2023	June 16, 2023	June 17, 2022	Aug 12, 2021
1 Fund-based/CC	Long-term	85.00	[ICRA]BBB+ (Positive)	[ICRA]BBB + (Stable)	[ICRA]BBB + (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Positive)
2 Non-fund based	Long-term/Short term	365.00	[ICRA]BBB+ (Positive) / [ICRA]A2	[ICRA]BBB + (Stable) / [ICRA]A2	[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+

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term – Fund-based/CC	Simple
Long-term/Short 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	-	-	-	85.00	[ICRA]BBB+ (Positive)
NA	Non-fund based	-	-	-	365.00	[ICRA]BBB+ (Positive) /[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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Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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