

December 04, 2024

## SPML Infra Limited: [ICRA]BBB-(Stable)/[ICRA]A3 assigned

### Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long term fund-based term loan	477.00	[ICRA]BBB-(Stable) assigned
Long term/ Short term proposed Non fund based	200.00	[ICRA]BBB-(Stable)/[ICRA]A3 assigned
<b>Total</b>	<b>677.00</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The assigned ratings factor in the established track record of SPML Infra Limited (referred as SPML or the company) in the water infrastructure segment for over four decades. The ratings also reflect its demonstrated capabilities in executing relatively large-sized water projects and adequate pre-qualifications for bidding on new projects in the water segment. ICRA notes that SPML has modest debt repayment obligations of ~Rs. 52 crore over the next three years, which can be comfortably met through the sale of identified properties, operational cash flows and a healthy liquidity position of ~Rs. 280 crore as on October 2024. As on March 31, 2024, the company has an order book (OB) of ~Rs. 3,144 crore (OB/OI of 2.9 times of FY2024 construction income), providing adequate revenue visibility.

However, the majority of the order book (~Rs. 2,051 crore) is from the joint venture (JV) route, where the company receives the commission income both upfront and during the execution phase, while the entire execution is carried out by the JV partner. In the past, the company was adding projects through the JV route due to constrained working capital limits and cash flows. With a sizeable equity infusion of ~Rs. 202 crore in 7M FY2025, the company is expected to add orders both for its own execution and the JV route in the medium term. The extent of order addition remains a key rating monitorable.

The ratings are, however, constrained by subdued operating margins, as witnessed over the past two years, due to a sizeable portion of revenues being derived from legacy projects with lower margins. The operating margins are expected to improve in the medium term with the closure of legacy projects, execution of new projects along with the continued commission income from JV projects and the extent of improvement remains a key monitorable in the near term. The ratings are also constrained by the moderate working capital intensity owing to high receivables with a significant portion pertaining to arbitration awards.

As of September 2024, the company had total arbitration receivables of Rs. 613 crore, which are pending at various levels. The company expects to realise these in the near-to-medium term, with ~30% already in advanced stages. Further, the company has exposure to sizeable creditors and contingent liabilities in the form of bank guarantees (BG), mainly for contractual performance, mobilisation advance and security deposits. Notwithstanding SPML's adequate execution capabilities, any sizeable invocation of performance guarantees would affect the company's liquidity and financial risk profile. In this regard, ICRA takes comfort from the non-invocation of BG in the last 24 months ending November 2024. Further, the company is in the advanced stage of completing various ongoing projects, mitigating the BG invocation risk to an extent. At present, the company is availing fresh BGs by providing a 100% cash margin, with free cash balances of Rs. 280 crore as of October 2024, for securing new orders. The company's ability to timely secure working capital limits at favourable terms remains crucial for order addition and improvement in liquidity position.

ICRA notes that in August 2023, the National Asset Reconstruction Company Limited (NARCL) took over the entire exposure of ~Rs. 2,612 crore from the erstwhile lenders. As per the debt restructuring agreement, SPML is liable to repay ~Rs. 700 crore by FY2031, out of which it has already repaid ~Rs. 223 crore as of September 2024. SPML has modest repayment obligations of Rs. 52 crore until FY2027. However, it has sizeable repayments of Rs. 110 crore in FY2028 and Rs. 215 crore in FY2029. The timely receipt of asset monetisation proceeds and arbitration awards remains critical for the sustenance of adequate liquidity profile. ICRA notes that the company received arbitration awards of ~Rs. 264 crore in FY2024 and H1 FY2025, whereas arbitration awards of ~Rs. 168 crore and asset monetisation proceeds of ~Rs. 37.5 crore are at advanced stages.

The Stable outlook reflects SPML's established track record of executing water and power infrastructure projects in the past, which provides the required technical qualifications to secure new projects. Moreover, the fund infusion in FY2025 is likely to support the business growth and associated working capital requirements.

## Key rating drivers and their description

### Credit strengths

**Established track record of over four decades in the EPC of water segment:** SPML has an established track record of over four decades in the execution of water and power infrastructure projects. It has demonstrated capabilities in executing relatively large and complex water and power projects at geographically diverse locations. Further, it is adequately equipped to take up new projects in the water infrastructure segment, given its adequate pre-qualifications and technical know-how to bid for new projects.

**Sizeable equity infusion to support business growth and liquidity profile:** The promoters of SPML have infused equity to the tune of ~Rs. 202 crore in 7M FY2024 and additional ~Rs. 37.5 crore is expected to be infused by March 2025 and another Rs. 118 crore by FY2026. This has led to a substantial improvement in the company's liquidity position, which will support the business growth. The company was adding projects through the JV route due to constrained working capital limits and cash flows in the recent past. With a sizeable equity infusion in FY2025, the company is expected to add orders both for its own execution and the JV route in the medium term. However, the extent of order addition remains a key rating monitorable. At present, the company is availing new BGs by providing 100% cash margin, and it plans to use the existing liquidity to provide performance guarantees for securing new orders. The company's ability to secure working capital limits at favourable terms remains crucial for order additions and further improvement in liquidity position.

**Adequate and geographically diverse order book position:** The company had an order book position of Rs. 3,144 crore as on March 31, 2024. The OB/OI ratio remained adequate at 2.9 times of the construction income of FY2024, providing adequate near-term revenue visibility. However, the majority of the order book (~Rs. 2,051 crore) is from JV projects wherein the company only receives upfront commission income, and the entire execution is undertaken by the JV partner. The order book has a mix of water infrastructure and power projects, spanning across Gujarat, Rajasthan, Tripura, Jharkhand and other states. While the company is adequately equipped to bid for new orders, the company's ability to secure new orders at profitable margins remains a key monitorable.

### Credit challenges

**Modest profitability margins (adjusted for arbitration and commission income):** The operating margins in the past two years remained subdued when adjusted for arbitration awards and JV commission income, as the majority of revenues is from legacy projects with lower margins. The operating margins are expected to improve in the medium term, with the closure of legacy projects. The execution of new projects along with continued commission income from JV projects and the extent of improvement remains a key monitorable in the near term.

**Adverse working capital position with sizeable debtors under arbitration; exposed to risks of BG invocation:** SPML's working capital position remains stretched due to large receivables with a sizeable portion pertaining to arbitration awards. As of September 2024, the company had total arbitration receivables of Rs. 613 crore, which are pending at various levels. The company expects to realise these in the near-to-medium term, with ~30% already in advanced stages. Further, the creditors also remain sizeable at ~Rs. 505 crore as on September 30, 2024 and contingent liabilities in the form of bank guarantees. The BGs are mainly for contractual performance, mobilisation advances and security deposits. Notwithstanding SPML's adequate execution capabilities, any sizeable invocation of performance guarantees would affect the company's liquidity and financial risk profile. In this regard, ICRA takes comfort from the non-invocation of BGs in the last 24 months ending November 2024. Further, the company is in the advanced stages of completing various ongoing projects, mitigating the BG invocation risk to an extent.

**Timely asset monetisation and receipt of arbitration proceeds remains critical to maintain adequate liquidity profile in medium-to-long term:** In August 2023, NARCL took over the entire debt of ~Rs. 2,612 crore from erstwhile lenders. As per the debt restructuring agreement, SPML is liable to repay ~Rs. 700 crore by FY2031, of which it has already repaid Rs. 223 crore as of September 2024. It has repayment dues of ~Rs. 44 crore in H2 FY2025, and sizeable repayments of Rs. 110 crore in FY2028 and Rs. 215 crore in FY2029. The timely receipt of asset monetisation proceeds and arbitration awards remain critical for the sustenance of an adequate liquidity profile. ICRA notes that the company received arbitration awards of ~Rs. 264 crore in FY2024 and H1 FY2025 and arbitration awards of ~Rs. 168 crore and asset monetisation proceeds of ~Rs. 37.5 crore are at an advanced stage.

### Environmental and social risks

**Environmental consideration:** SPML operates at multiple project sites simultaneously and therefore, the risk of business disruptions on account of physical climate risks is low. Given that construction activity generates air and water pollution, waste generation, entities like SPML remain vulnerable to the risk of temporary bans on operations in areas that are more sensitive to deteriorating air/water quality, exposing the company to the price escalation risk. Nevertheless, most of its projects have price escalation clauses and it seeks compensation from the client if there is a delay on account of environmental issues, geographical issues, etc.

**Social consideration:** Entities involved in construction activities like SPML encounter social risks stemming from the health and safety concerns of its workers, which could invite regulatory or legal action, besides reputational harm. However, it has a track record of maintaining healthy relationships with its workers/employees, including contractual labour with no material incidents of a slowdown in execution in relation to workforce management.

### Liquidity position: Adequate

The liquidity position remains adequate with unencumbered cash balances and fixed deposits of ~Rs. 280 crore as of October 2024. It is expected to be supported by further equity infusion of ~Rs. 37.5 crore by March 2025 and another Rs. 118 crore by FY2026. The company has debt repayment obligations of ~Rs. 233 crore in FY2025, of which ~Rs. 189 crore has already been repaid as of September 2024. The remaining ~Rs. 44 crore is expected to be repaid before March 2025, which is also likely to be supported by the sale of non-core assets. ICRA notes that the company is availing BGs by providing 100% cash margin and hence, timely sanction of bank lines at favourable terms remains crucial for the sustained improvement of its liquidity position.

### Rating sensitivities

**Positive factors** – The ratings could be upgraded in case the company demonstrates a sustained track record of profitable operations, along with healthy revenue visibility and comfortable debt coverage metrics. The timely sanction of adequate bank lines for working capital facilities also remains crucial for ratings upgrade.

**Negative factors** – The ratings could be downgraded if there is sustained pressure on earnings, which could impact liquidity position and coverage metrics. The weakening of liquidity position in the backdrop of a stretch in the working capital cycle or inadequate bank lines will also exert pressure on the ratings.

### Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology Construction</a>
Parent/Group support	NA
Consolidation/Standalone	Standalone

## About the company

SPML Infra Limited was established in 1981 and is a publicly listed infrastructure development company primarily involved in water distribution and power segments. The company completed over 650 projects across India on engineering, procurement and construction (EPC), public-private partnership (PPP) and build-own-operate-transfer (BOOT) basis in the past four decades.

### Key financial indicators (audited)

	FY2023	FY2024	H1 FY2025*
Operating income	851.7	1,230.4	395.3
PAT	2.1	19.5	27.0
OPBDIT/OI	1.5%	2.5%	6.6%
PAT/OI	0.2%	1.6%	6.8%
Total outside liabilities/Tangible net worth (times)	1.9	2.4	1.7
Total debt/OPBDIT (times)	93.5	18.1	7.8
Interest coverage (times)	0.3	0.5	1.3

Source: ICRA Research, Company; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore, \* provisional results

### Status of non-cooperation with previous CRA: Not applicable

### Any other information: None

### Rating history for past three years

Instrument	Current (FY2025)			Chronology of rating history for the past 3 years					
	Type	FY2025		FY2024		FY2023		FY2022	
		Amount Rated (Rs. crore)	Dec 04, 2024	Date	Rating	Date	Rating	Date	Rating
Long term fund based term Loan	Long Term	477.00	[ICRA]BBB-(Stable)	-	-	-	-	-	-
Long term/ Short term proposed Non fund based	Long Term/ Short term	200.00	[ICRA]BBB-(Stable)/ [ICRA]A3	-	-	-	-	-	-

### Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term fund based Term Loan	Simple
Long term /Short term proposed 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	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long term fund based Term Loan	Aug 2023	-	Mar 31, 2031	477.00	[ICRA]BBB- (Stable)
NA	Long term /Short term proposed Non fund based limits	NA	NA	NA	200.00	[ICRA]BBB-(Stable)/ [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 - Not applicable**

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