

June 08, 2020

Shankaranarayana Constructions Private Limited (erstwhile SNC Power Corporation): Change in rated limits

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund based CC	92.0	102.0	[ICRA]A (Stable); outstanding
Short-term – Non-fund based	648.0	648.0	[ICRA]A1; outstanding
Long-term / Short-term – Unallocated	160.0	150.0	[ICRA]A (Stable) / [ICRA]A1; outstanding
Total	900.0	900.0	

*Instrument details are provided in Annexure-1

Rationale

ICRA has ratings outstanding of [ICRA]A (Stable) and [ICRA]A1 for the bank lines of Shankaranarayana Constructions Private Limited (SNC), which were last reaffirmed in November 2019. ICRA takes note of the potential impact of Covid-19 pandemic on the business and financial profile of SNC during FY2021. With the commencement of nationwide lockdown due to the current Covid-19 pandemic from March 24, 2020 onwards, there has been moderation in construction activities. Post part-relaxation of lockdown from April 21, 2020 onwards, the company has resumed construction activities at its sites and is expected to gradually reach its targeted operational levels. The company has adequate liquidity to tide over any near-term cash flow disruptions, with minimal utilization of the sanctioned fund based working capital limits during the first two months of FY2021. Nevertheless, timely scale-up of operations, steady progress across projects along with efficient management of working capital position of the company remain key monitorable.

The rating continues to consider SNC's healthy order book position, which provides revenue visibility over the medium term. The ratings factors in the strong revenue growth in FY2019 and FY2020, supported by strong order inflows in the last three years, as well as the healthy progress in the company's irrigation sector projects. The ratings draw comfort from SNC's established track record in executing construction contracts in the irrigation and the power sectors, which has enabled it to win repeat orders from its clientele. The ratings reflect the comfortable profitability metrics and the healthy cash accruals in relation to the long-term debt repayment obligations of the company.

The ratings, however, are constrained by the high sectoral, geographical and client concentration, as majority of the revenue is derived from the irrigation projects carried out for the Karnataka state government and its agencies. The company's ability to win new orders in future may be constrained if competition further intensifies in this segment. The ratings are also constrained by the moderately high leverage, as measured by Total Outside Liabilities to Net Worth (TOL/TNW). SNC has been able to fund its working capital requirement through trade creditors and mobilisation advances; while bank borrowings have remained low in relation to the scale, TOL/TNW remains moderately high at 2.15 times as on March 2020. SNC's clients are mainly government bodies and public-sector entities and any delay in release of payments and retention monies withheld by clients can impact the cash flows of the company.

ICRA expects SNC's credit profile to be Stable, backed by the company's execution track record and ability to win repeat orders despite the high client concentration. However, ICRA will continue to monitor the impact of the current pandemic on the credit profile of the company.

Key rating drivers and their description

Credit strengths

Established track record of promoters in civil construction industry – SNC’s promoters have experience of around six decades in the civil construction industry. Moreover, the company has proven execution capability in the irrigation and power sector projects. SNC’s strong execution track record helps generate repeat orders.

Healthy order book position and strong revenue booking – As on March 2020, SNC had a pending order book of Rs 4,029 crore, which is 2.3 times the FY2020 revenues. The company has booked healthy revenue of Rs. 1730.3 crore in FY2020 (including rental income of close to Rs. 10 crore), witnessing growth rate of 33% over the revenue booked in FY2019. The order book provides adequate revenue visibility over the medium term. SNC had won new orders of more than Rs 6,800 crore over the last three years, which have supported the strong order book position.

Comfortable profitability and healthy cash accruals – SNC reported an operating profit margin of 11.0% and a net profit margin of 6.1% in FY2020. This has resulted in net cash accruals of Rs. 126.4 crore in FY2020. The company has limited term borrowings in relation to its accruals, and the term loan outstanding of Rs. 52.9 crore as on March 2020 is backed by lease income from a commercial office property owned by SNC. The company has invested the bulk of the accruals in the last three years in acquiring immovable properties, which supports the collateral security cover for working capital limits availed.

Credit challenges

High client and geographic concentration – The company receives irrigation orders from four Karnataka state irrigation agencies—Karnataka Neeravari Nigam Limited (KNNL), Krishna Bhagya Jala Nigam Limited (KBJNL) and Visvesvaraya Jala Nigam Limited (VJNL) and Cauvery Neeravari Nigam Limited (CNNL). KNNL, KBJNL, VJNL and CNNL contribute almost 94% to the company’s outstanding orders, resulting in high client and geographic concentration risks. The company’s ability to win new orders in the future may be constrained by intensifying competition in the Karnataka-irrigation projects segment. Moreover, given the pressure on government finances, there could be delays in new project awards and execution as well as funds release for ongoing projects.

Moderately high TOL / TNW – SNC has been able to fund its working capital requirement through trade creditors and mobilisation advances, resulting in low working capital intensity. Consequently, while bank borrowings have remained low in relation to the scale, TOL/TNW remains moderately high at 2.15 times as on March 2020. The company’s current ratio remains constrained by large investments in immovable properties made in recent years. The extent of investments in fixed assets going forward, and the mode of funding for the same, will have a key bearing on the leverage ratio.

Cash flows vulnerable to delays in payments from clients which are largely government agencies or public-sector undertakings – SNC’s clients are mainly government bodies and public-sector entities and any delays in release of payments and retention monies withheld by the clients can impact its cash flows.

Liquidity position: Adequate

The liquidity profile of SNC is adequate, backed by its low working capital intensity and availability of sufficient working capital limits. SNC has been able to fund majority of its working capital requirements through its creditors and mobilisation advances. In case of any stretch in the working capital cycle, SNC has access to Rs. 102 crore of fund-based working capital limits (average utilisation of 33% during the period November 2019 to May 2020 and 4% utilised as on May 14, 2020). SNC has term debt repayment obligations on a lease rental discounting (LRD) loan, which is adequately covered by the escrowed rental income. The company does not have any committed capital expenditure; however, it is

likely to invest surplus cash flows from operations in acquiring immovable properties, which are used as collateral security for working capital credit limits.

Rating sensitivities

Positive triggers – Positive triggers include improvement in the business risk profile through diversification in the customer profile of the company. Specific credit metrics which could lead to an upgrade include TOL/TNW less than 1.25 times on sustained basis.

Negative triggers – Negative triggers include delay in execution of ongoing orders, reduction in fresh order inflows or stretch in the receivables cycle of the company. Specific credit metrics which could lead to a downgrade include TOL/TNW higher than 2.25 times on sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Construction Entities
Parent/Group Support	Not applicable
Consolidation/Standalone	The rating is based on standalone financial statements of the company

About the company

Shankaranarayana Constructions Private Limited (SNC, formerly known as SNC Power Corporation Private Limited) was incorporated on March 24, 2006, as a private limited company to continue and run the business as a successor with the assets and liabilities of a partnership firm, known as Sri Shankaranarayana Construction Co (SSNC). SSNC, founded by Mr. C. Narayana Shetty, had been into the construction business since 1960. SNC executes civil works of infrastructure projects viz. thermal power, hydro power, irrigation and building projects. The company's focus is primarily on execution of irrigation and power sector projects.

In 2015, a group company, held entirely by the promoters, was merged with SNC Power Corporation Private Limited. The appointed date for the merger was April 1, 2014. On October 01, 2015, the name of the company was changed to Shankaranarayana Constructions Private Limited.

Key financial indicators

	FY2019 (audited)	FY2020 (Provisional)
Operating Income (Rs. crore)	1,305.4	1730.3
PAT (Rs. crore)	68.2	105.1
OPBDIT/OI (%)	10.1%	11.0%
RoCE (%)	59.5%	53.3%
Total Outside Liabilities/Tangible Net Worth (times)	2.46	2.15
Total Debt/OPBDIT (times)	0.69	0.38
Interest Coverage (times)	5.81	5.30
DSCR	4.13	4.49

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years				
	Type	Amount Rated	Amount Outstanding	Rating 08-Jun-2020	FY2020 22-Nov-2019	FY2019 29-Oct-2018	16-Apr-2018	FY2018 06-Nov-2017	
1 Fund based – CC	LT	102.0	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Positive)	[ICRA]A- (Positive)	
2 Non-fund based	ST	648.0	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A2+	[ICRA]A2+	
3 Unallocated	LT/ST	150.0	-	[ICRA]A (Stable) / [ICRA]A1	[ICRA]A (Stable) / [ICRA]A1	-	-	-	

Amount in Rs. crore

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISI	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash credit / OD	NA	NA	NA	102.0	[ICRA]A (Stable)
NA	Bank guarantee / LC	NA	NA	NA	648.0	[ICRA]A1
NA	Unallocated	NA	NA	NA	150.0	[ICRA]A (Stable) / [ICRA]A1

Source: Shankaranarayana Constructions Private Limited

Annexure-2: List of entities considered for consolidated analysis – Not applicable

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