September 24, 2021

Srinivasa Enterprises: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund Based Limits	5.46	6.25	[ICRA]BB (Stable); Reaffirmed
Short Term - Non Fund Based – BG	14.00	17.20	[ICRA]A4; Reaffirmed
Long term/Short term - Unallocated	10.54	6.55	[ICRA]BB(Stable)/ [ICRA]A4; Reaffirmed
Total	**30.00**	**30.00**	

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation of the ratings considers a significant experience of the partners in executing building construction works and low counterparty credit risk as its clients mainly include government departments such as Health and Family Welfare Department of Karnataka (H&FWD), Andhra Pradesh Education & Welfare Infrastructure Development Corporation (APEWIDC) and Telangana State Medical Services & Infrastructure Development Corporation (TSMSIDC) etc. The ratings, however, are constrained by Srinivasa Enterprises' (SE) small scale of operations in the civil construction industry with an operating income of Rs.21 crore in FY2021, which declined by 39% owing to the adverse impact of the pandemic and a slow-moving order book. The firm already billed ~Rs.28 crore in 5M FY2022 and expects to achieve billings of more than Rs.50 crore in FY2022 on the back of an order book of Rs.68 crore as on August 31, 2021 and a steady progress in the orders. The ratings are also constrained by SE's high customer concentration risk as two customers account for the entire order book. It is also exposed to high geographical concentration risk as its presence is limited to Karnataka and Andhra Pradesh. The ratings also consider the risks arising from the partnership nature of the firm.

The Stable outlook on the rating reflects ICRA's belief that SE's revenues are expected to increase on the back of a steady progress in order execution and timely receipt of payments from Karnataka projects.

Key rating drivers and their description

Credit strengths

Significant experience of partners in building construction works – The partners have more than 15 years of experience in undertaking building construction works. Also, the firm is registered as a Class-I contractor in Karnataka, Andhra Pradesh and Telangana.

Low counterparty risk owing to a reputed client base – The client portfolio of the firm mainly consists of Government departments such H&FWD, TSMSIDC and APEWIDC, resulting in low counterparty risk.

Credit challenges

Small scale of operations – SE's scale of operations has remained small with an operating income of Rs.21 crore in FY2021, which declined by 39% owing to the adverse impact of the pandemic and a slow-moving order book. However, the firm has already billed ~Rs.28 crore and the revenues are estimated to increase to over Rs 50.0 crore in FY2022 on the back of moderate order book position of Rs.68.4 crore as on August 31, 2021. As the entire order book is to be executed over the next 12 months, order book addition remains a key rating monitorable.

Weak liquidity position – The firm's liquidity position is weak due to delay in receipt of payments from the AP project, which are generally received after 90 days of bill submission. However, payments are generally received within 30-60 days from the Karnataka Government departments, supporting its liquidity position to an extent. Also, SE has raw material assistance facility of Rs.4 crore from National Small Industries Corporation (NSIC) for procuring raw materials, which supports its liquidity position.

High customer and geographical concentration risks – The firm is exposed to high customer concentration risk as two customers account for the entire order book. It is also exposed to high geographical concentration risk as its entire order book is limited to Karnataka and Andhra Pradesh.

Risks related to partnership nature of the firm – The firm is exposed to the risks inherent to the partnership nature of the firm including the capital withdrawal risk.

Liquidity position: Stretched

The firm's liquidity position is stretched with low cushion in working capital limits and low cash balances. Further, the average utilisation of the working capital limits stood high at 92.5% for the past 16 months period ended in August 2021. Absence of capex plans and low repayment obligation of ~Rs.1.2 crore in FY2022 are expected to support its liquidity position.

Rating sensitivities

Positive factors – The ratings could be upgraded if the firm's scale of operations and profit margins improve on a sustained basis along with an improvement in the liquidity position.

Negative factors – The rating could be downgraded if the scale of operations or margins decline or if there is any delay in payments from customers, adversely impacting the firm's financial performance and liquidity position.

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 ratings are based on the standalone financial statements of the company.

About the company

Srinivasa Enterprises was founded in 2001 as a partnership firm by Mr. N. Rambabu and Mr. B. Jeevan Kishore. However, in November 2014, Mr. N. Rambabu retired from the firm and Mr. B. Kranti Kishore was inducted as a new partner. The firm executes building construction works for state government departments. It is a Class-I contractor in Karnataka, Andhra Pradesh and Telangana, executing projects for H&FWD, APEWIDC and TSMSIDC.

Key financial indicators

SE	FY2020	FY2021*
Operating Income (Rs. crore)	34.1	20.9
PAT (Rs. crore)	1.0	0.9
OPBDIT/OI (%)	9.9%	14.9%
PAT/OI (%)	3.0%	4.3%
Total Outside Liabilities/Tangible Net Worth (times)	2.4	2.1
Total Debt/OPBDIT (times)	2.8	3.6
Interest Coverage (times)	2.0	1.8

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation, *Provisional financials*

Status of non-cooperation with previous CRA: ACUITE Ratings, in its rationale published on Srinivasa Enterprises, dated June 02, 2021, mentioned that the rating continues to be flagged as "Issuer not cooperating "at '[ACUITE]B+/A4 Issuer Not Cooperating' based on best available information.

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of March 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Sep 24, 2021	June 16, 2020	-	-
1	Fund Based limits	Long-term	6.25	-	[ICRA]BB (Stable)	[ICRA]BB (Stable)	-	-
2	Non-Fund Based – BG	Short-term	17.20	-	[ICRA]A4	[ICRA]A4	-	-
3	Unallocated Limits	LT/ST	6.55	-	[ICRA]BB (Stable)/ [ICRA]A4	[ICRA]BB (Stable)/ [ICRA]A4	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund Based limits	Simple
Non Fund Based – BG	Very Simple
Unallocated	Not applicable

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 analyzing 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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No/Bank Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
Indian Bank	Fund Based limits/SOD	NA	10.5%	NA	6.25	[ICRA]BB (Stable)
Indian Bank	Non Fund Based – BG	NA	NA	NA	17.20	[ICRA]A4
NA	Unallocated Limits	NA	NA	NA	6.55	[ICRA]BB (Stable) /[ICRA]A4

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Not applicable

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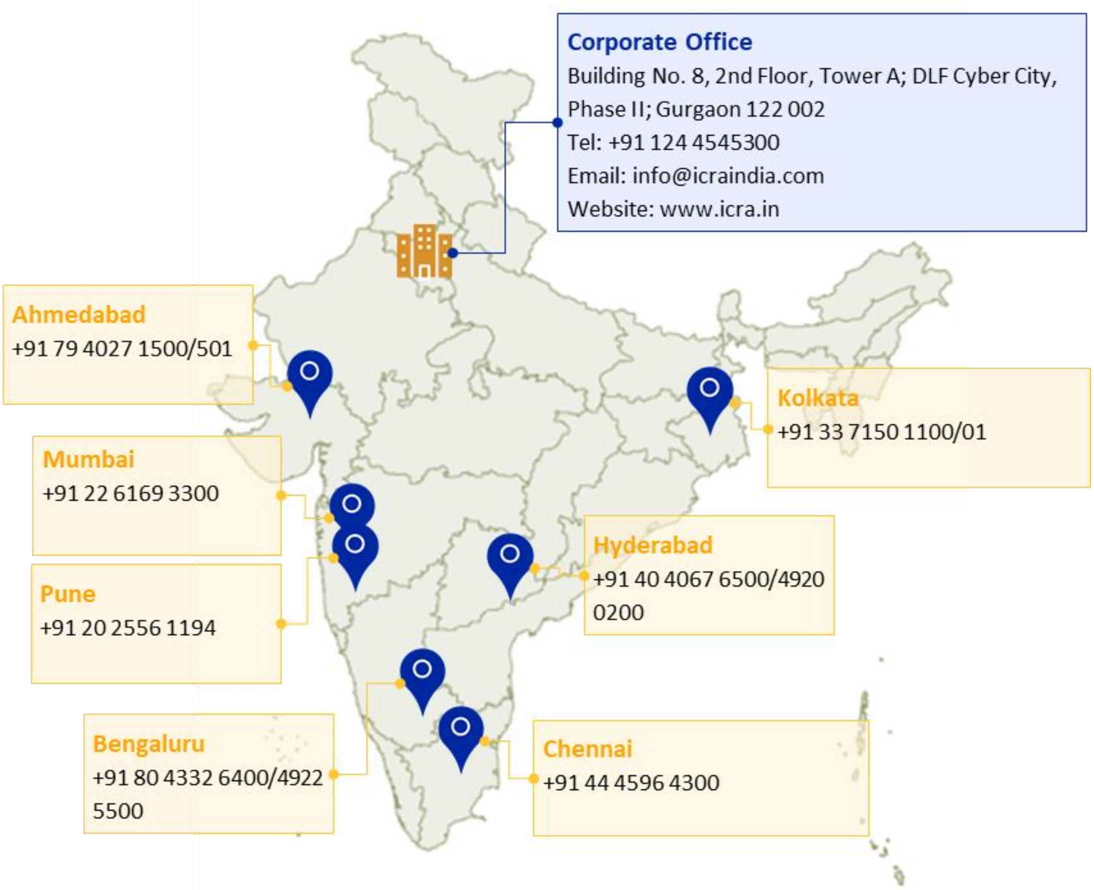

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