

Rating Rationale

SMS Limited

16 Aug 2019

Brickwork Ratings reaffirms the rating for the bank loan facilities of SMS Limited (SMSL or the company).

Particulars

Facility	Tenor	Previous Amount (Rs. Crs)	Present Amount (Rs. Crs)	Previous Rating (April 2018)	Present Rating*
Fund Based					
Cash Credit		301.00	300.00	BWR A (Pronounced as BWR A) Outlook: Stable	BWR A (Pronounced as BWR A) Outlook: Stable Reaffirmed
Stand by line of credit (SLOC)	Long Term	20.00	20.00		
Non Fund Based					
Bank Guarantee	Short Term	1033.00	949.00	BWR A2+ (Pronounced as BWR A Two Plus)	BWR A2+ (Pronounced as BWR A Two Plus) Reaffirmed
LC interchangeability with BG (Sub-limit of BG)		(125.00)	(125.00)		
Total		1354.00	1269.00	(INR One Thousand Two Hundred Sixty Nine Crores Only)	

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings.

BWR has principally relied upon the standalone audited financial results up to FY19, Consolidated and Projected financials, publicly available information and information/clarification provided by the company's management.

Rating Action: Reaffirmation of rating at BWR A/A2+ with Stable outlook

Rationale:

The reaffirmation of the rating continues to factor in the long term experience of the promoters in the EPC industry, SMSL's status as a Class A contractor & ability to secure large contracts and track record of project execution capabilities across sectors such as Mining, Irrigation, Road and Bridges, Highway, Electrical, Enviro & Clean Energy, and Railways. The ratings derive strength from large and reputed customer profile, which ensures steady order flow through the year, low counter party credit risks as clients are all government entities. The ratings, however, are constrained by the shortfall in the envisaged performance of the company in terms revenue and profitability for the period FY18-19, working capital intensive nature of operations coupled with high utilization of sanctioned working capital facilities, execution risk given that 52% of the orders are to be executed within two years and losses in the two of the subsidiaries of the company which has deteriorated the liquidity position of the company on a consolidated basis.

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Key Rating Determinants

Credit Strengths:

Long term experience of promoters: The promoters of the company have extensive experience of more than fifty years working as an EPC (Engineering, Procurement and Construction) contractor in sectors such as Mining, Irrigation, Road and Bridges, Highway, Electrical, Enviro & Clean Energy, and Railways. The company mostly undertakes contracts for central departments. SMSL has successfully executed various projects in the past, the current order book comprises of around forty orders spread across multiple regions. SMSL is professionally managed company headed by Mr. Abhay Sancheti and other family members. The day-to-day operations of the company are managed by Mr. Anand Sancheti (Managing Director). SMSL continues to be a closely held company with family members of Sancheti family holding ~80% of total shareholding. Mr. Abhay Sancheti is holding 31.33% followed by Mr. Ajay Sancheti and Mr. Anand Sancheti, each holding 23.50% stake in the company.

Financial risk profile: SMSL financial risk profile is driven by low gearing and moderate cushion vis-a-vis debt repayment obligations. As per FY19 Audited financials on a standalone basis, SMSL had debt of Rs. 542.61 crore on a resulting into gearing of 0.91 times for FY19. The company has fair net cash accruals to meet annual principal debt obligation of Rs. 25-35 crore in fiscals 2020-2022.

Revenue visibility over the medium term: As of April, 2019 the company had an outstanding order book position of Rs. 4280.01 crore to be executed over next 5 years and is ~4 times the FY19 revenue. The order book position of the company is fairly diversified and spread across seven sectors such as Mining (50.72%), Irrigation (7.67%), Road and Bridges (13.44%), Environment (13.76%), Electrical (6.80%), Railways (4.73%) and Defence (2.87%).

Low counterparty risk: The counterparty risk continues to remain low as all the clients are government entities including Public Works Department (PWD), National High Authority of India (NHAI), and other state and centre departments.

Credit Weaknesses:

High execution risk: Out of the order-book of Rs. 4280.01 crore as on April, 2019 nearly 52% of the orders are to be executed within two years, which exposes the company to high execution risk. However the established track record and relationship with subcontractors and JV partners will aid the company in execution of the large order book.

High working capital intensity: The Company's working capital intensity remains high, primarily due to high receivable levels coupled with relatively high utilization of working capital facilities with average utilization of cash credit facility at ~ 93%.

High competitive intensity: Intense competition given moderate complexity of the work involved in the sectors such as roads, bridges and electrical EPC works and presence of other large players in the sector. However, the competitive risk is partly mitigated by SMSL's demonstrated track-record of gaining large size projects over the recent past.



Loss making subsidiaries: Two of the company subsidiaries viz; Spark Mall & Parking Pvt Ltd (SMPPL) and SMS Taxicabs Private Limited have reported net losses where the company has extended loan and advances to the tune of Rs. 40.41 Crs in FY19 which has deteriorated the liquidity position of the company. Additionally, SMSL has also extended the corporate guarantee SMPPL. The ability of the SMSL to gradually reduce to corporate guarantee extended to SMPPL to NIL by 2020 as per the terms stipulated by the one of the lenders will be the key rating sensitivity.

Pending Litigation and remarks by the auditor for SMSL subsidiary viz; SMS Taxicabs Private Limited (SMSTPL): As per the auditor remarks in FY18 consolidated financials, The net-worth of the SMSTPL has significantly eroded and turned negative as at the end of the year. The company has closed its phone a fleet taxi operation and the financial viability of the company greatly depends on its ability to pursue new business ventures and / or strategic business plans. The company has started a DBO subscription scheme in place of existing taxi operations. Considering this launch of DBO subscription scheme in place of phone a fleet taxi operation, the financials for the year have been prepared under going concern assumption as at the end of the year. SMSTPL was a joint venture between SMS Limited (holding 60%) and Precinct Concorde Pvt Ltd (holding 40%). SMSTPL has a pending litigation from one of the bank in Mumbai Debt & Recovery Tribunal for unpaid amount of Rs. 8.54 Crs, as informed by the company no corporate guarantee has been extended by SMSL to SMSTPL and liability pertaining to this litigation will not fall on SMSL.

Going forward, the ability of the company to increase its profitability levels as projected and optimally manage the working capital cycle shall be the key rating sensitivities.

Liquidity:

The current ratio of the company stood at 1.47 times in FY19 as against 1.27 times in FY18. Cash and cash equivalent in FY19 include balances with bank in current accounts of Rs. 2.01 Crs, cash on hand of Rs. 2.51 Crs and deposits of Rs. 29.37 Crs.

Rating Outlook: Stable

BWR believes the **SMS Limited** business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case the company increases its scale of operations significantly along with improving its profitability margins. The rating outlook may be revised to 'Negative' if the revenues go down and profit margins show lower than expected figures or any deterioration in the financial risk profile of the subsidiaries.

Analytical Approach:

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

About the Company:

Setup as a proprietorship firm in 1963 by late Mr. Shantikumar M Sancheti, SMSL was incorporated in May'1997 as a closely held Company and is currently managed by Mr. Abhay Sancheti, Mr. Anil Sancheti (brothers of Mr. S.M. Sancheti), Mr. Ajay Sancheti, and Mr. Anand Sancheti (sons of Mr.S.M.Sancheti).

The Company is catering to diversified sectors such as, Mining, Toll management, Irrigations, Road and O&M, EPC, and Urban development with reputed clientele such as Government agencies National Highway Authority of India (NHAI), Public Works Department (PWD), Uranium Corporation of India (UCIL), South Eastern Coalfields Limited (SECL), and Indian Railways Construction Company. The company has many subsidiaries/SPVs which operate in these lines.

Company's Financial Performance (Standalone):

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Key Financial Parameters	FY18 (A)	FY19 (A)
Total Operating Income (Rs. Crs)	905.45	1021.16
PAT (Rs. Crs)	28.11	30.71
Total Debt (Rs. Crs)	475.75	542.61
Tangible Net worth (Rs. Crs)	559.50	594.58
D/E (times)	0.85	0.91
Current Ratio (times)	1.27	1.47

Rating History for last three years:

Sl. No.	Instrument/Facility	Current Rating (Year 2019)			Rating History		
		Type (Long Term/Short Term)	Amount (Rs. Crs)	Rating	April-2018	March-2017	April-2016
1	Cash Credit	Long Term	300.00	BWR A (Pronounced as BWR A) Outlook: Stable Reaffirmed	BWR A (Pronounced as BWR A) Outlook: Stable	BWR A (Pronounced as BWR A) Outlook: Stable	BWR A- (Pronounced as BWR A minus) Outlook: Stable
2	Stand by line of credit (SLOC)	Long Term	20.00	BWR A (Pronounced as BWR A) Outlook: Stable Reaffirmed	BWR A (Pronounced as BWR A) Outlook: Stable	BWR A (Pronounced as BWR A) Outlook: Stable	BWR A- (Pronounced as BWR A minus) Outlook: Stable
3	Bank Guarantee	Long Term	949.00	BWR A2+ (Pronounced as BWR A Two Plus) Reaffirmed	BWR A2+ (Pronounced as BWR A Two Plus)	BWR A2+ (Pronounced as BWR A Two Plus)	BWR A2 (Pronounced as BWR A Two)
4	LC interchangeability with BG (Sub-limit of BG)	Long Term	(125.00)	BWR A2+ (Pronounced as BWR A Two Plus) Reaffirmed	BWR A2+ (Pronounced as BWR A Two Plus)	BWR A2+ (Pronounced as BWR A Two Plus)	BWR A2 (Pronounced as BWR A Two)
Total			1269.00	(INR One Thousand Two Hundred Sixty Nine Crores Only)			

NA: Not Available

Status of non-cooperation with previous CRA (if applicable): Reason and comments: Not Applicable
Any other information: NIL

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Infrastructure Sector](#)



Analytical Contacts	Investor Contacts
<p>Bal Krishna Piparaiya Senior Director - Ratings B : +91 22 2831 1426, +91 22 2831 1439 piparaiya.bk@brickworkratings.com</p> <p>Satish Jewani Senior Ratings Analyst D : +91 22 6745 6603 B : +91 22 2831 1426, +91 22 2831 1439 satish.j@brickworkratings.com</p>	<p>Satish Nair Director - Global Market Development & Investor Relations M : +91 7738875550 B : +91 22 6745 6666 satish.n@brickworkratings.com</p>
1-860-425-2742	

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Note on complexity levels of the rated instrument:

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings

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BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations.

DISCLAIMER

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