

Press Release

SMS Limited

July 31, 2019

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 1370.00 Cr.
Long Term Rating	ACUITE A / Outlook: Stable
Short Term Rating	ACUITE A1

* Refer Annexure for details

Rating Rationale

Acuite has reviewed the long-term rating of '**ACUITE A**' (read as **ACUITE A**) and short term rating of '**ACUITE A1**' (read as **ACUITE A one**) to the Rs. 1370.00 crore bank facilities of SMS LIMITED (SL). The outlook is 'Stable'.

SMS Limited (SL), erstwhile known as SMS Infrastructure Limited, was established in the year 1963 by Late Mr. Shaktikumar Sancheti as a proprietary concern. Later in 1997, the constitution was changed to public limited company. The company changed its name to SMS Limited in January 2016. The company is currently managed by Mr. Abhay Sancheti, brother of Mr. Shaktikumar Sancheti, and younger son of Mr. Shaktikumar Sancheti- Mr. Anand Sancheti. SL is engaged as a Mine Developer and Operator and is involved in other civil construction works via EPC route. The operations are diversified into mine extraction, construction of roads, bridges and railways, irrigation, waste management, toll collection and electrical works.

Analytical Approach

Acuite has taken a standalone view of the business and financial risk profile of SL to arrive at the rating.

Key Rating Drivers

Strengths

- **Established Track record of operations and experienced management**

SL has an established presence in the construction sector of more than five decades. It has experience of successful execution of projects in roads and bridges and specialized projects, including mining, environment, railways, pipelines and bridges among others. The company undertakes Mine development, inclined drivage, shaft sinking, underground mining of coal with blastless technology and mechanised hard rock mining. Further, it is into designing, engineering and construction of complex and integrated water transmission and distribution projects, water treatment plants, barrages, dams, embankments, elevated and underground reservoirs, construction and upgradation of roads, bridges, flyovers, highways and tunnels among others. SL is promoted by Mr. Abhay Sancheti, who has over three decades of experience in the infrastructure industry. Mr. Abhay is well supported by Mr. Anand Sancheti, Managing Director, to handle the day-to-day operations of the company. The extensive industry experience of the promoter has enabled the company to build and maintain long standing relationship with its key clients through timely execution of projects.

- **Reputed clientele and healthy order book position**

SL over the years has gained necessary pre-qualification by successfully completing large ticket, technologically advanced and complex projects to bid for projects under heavy infrastructure sectors. On account of this established presence in the industry, it has been able to build esteemed clientele profile spanning both Private as well as Government agencies. Some of the key customers include, National Highways Authority of India (NHAI), South Eastern Coalfields Limited (SECL), Uranium Corporation of India Limited (UCIL), Maharashtra Krishna valley Development Corporation (MKVDC), Airports Authority of India (AAI), Oil and Natural Gas Corporation (ONGC), amongst others.

Moreover, the company has an unexecuted order book position of Rs. 4,280 crore as on July 2019 which is spread across segments such as mining, roads, irrigation, environment, defence, O&M and electrical works. The order book is also well diversified with revenue stream across geographies such as Andhra Pradesh, West Bengal, Rajasthan, Maharashtra, Karnataka, Uttar Pradesh, and Chhattisgarh. Further, SL is L1 bidder for 3 major mining contracts for Uranium mining, copper mining and coal mining spread across Madhya Pradesh, Telangana and Andhra Pradesh. The approximate value of the bids totals to Rs.5530 crore and electrical contracts of Rs.209 crore, hence the total L1 book stands at Rs.5739 crore.

- **Moderate financial risk profile**

SL has moderate financial risk profile marked by healthy net worth, low gearing and comfortable debt protection measures.

SL's net worth stood at Rs.594.30 crore as on March 31, 2019 (Provisional) against Rs.559.49 crore as on March 31, 2018. Acuité believes that the net worth of the company will remain in the range of Rs.640.00 crore to Rs.780.00 crore over the medium term backed by its stable revenues and operating margins.

SL has followed a conservative financial policy as reflected by its low peak gearing of 0.92 times as on March 31, 2017. The leverage and coverage ratios continue to remain comfortable. The gearing remained low at 0.91 times as on March 31, 2019 (Provisional) against 0.85 times as on March 31, 2018. Interest Coverage Ratio stood at 1.82 times in FY2019 (Provisional) against 1.79 times in FY2018. TOL/TNW ratio stood at 1.66 times as on March 31, 2019 (Provisional) against 1.70 times as on March 31, 2018. Debt to EBITDA stood at 3.52 times as on March 31, 2019 (Provisional) against 3.33 times as on March 31, 2018. SL's operations are working capital intensive and therefore, the company's working capital lines are fully utilised. Acuité believes that any stretch observed in the realisation of receivables or slower than anticipated execution of its order book is likely to exert pressure on the working capital limits additionally. Therefore, any increase in Debt/EBITDA beyond 3.75 times is likely to impart a downward bias to the rating.

In FY2019, SL generated net cash accruals of Rs.51.61 crore and the same is expected to remain in the range of Rs.65.00-100.00 crore over the medium term on account stable operating margins and absence of any major debt funded capex. Acuité believes that the financial risk profile will continue TO remain moderate on account of expected moderation in the revenue profile and stable operating margins over the medium term.

Weaknesses

- **Moderation in revenues**

SL reported operating revenues of Rs. 1,012.56 crore in FY2019 (Provisional) against Rs. 907.33 crore in FY2018 and Rs. 1,115.90 crore in FY2017. The company has a revenue mix of EPC and Non-EPC segment (Mining) and on account of slowdown in the EPC segment in the past few years, the company has been concentrating more towards the Non-EPC segment which are long gestation contracts. Income in the Non-EPC segment is generally realised in a phased manner during the tenure of the mining contracts. Acuité believes, based on the current mix of the order book of SL, the revenues will continue to remain stable and in the range of Rs. 1100-1300 crore in the near to medium term unless the company picks up pace in its EPC segment.

- **Working capital intensive operations**

SL's operations are highly working capital intensive marked by Gross Current Asset (GCA) of 381 days in FY2019 (Provisional) against 379 days in FY2018. The GCA days are mainly dominated by high inventory holding period which stood at 138 days in FY2019 (Provisional) compared to 119 days in FY2018. Collection period stood at 103 days in FY2019 (Provisional) against 116 days in FY2018. The working capital limits remained almost fully utilised.

Acuité believes that the efficient working capital management will be crucial to the company in order to maintain a stable credit profile.

- **Competitive industry**

The company is engaged as civil contractor. The particular sector is marked by the presence of several mid to big size players. The company faces intense competition from the other players in the sectors. Risk becomes more pronounced as tendering is based on minimum amount of bidding of contracts. However, this risk is mitigated to an extent on account of the extensive experience of the management and well established presence in the industry.

Liquidity Position:

SL has adequate liquidity marked by moderate net cash accruals to its maturing debt obligations. The cash accruals are estimated to remain around Rs.65.00-100.00 crore, while its repayment obligations are estimated to be in the range of Rs. 25.00-30.00 crore in the near term. SL maintains unencumbered cash and bank balances of Rs. 4.53 crore as on March 31, 2019. The current ratio stood at 1.43 times as on March 31, 2019 (Provisional). The GCA days stood high at 385 in FY2019 (Provisional) and the working capital limits remain fully utilised. Acuite believes that efficient management of its working capital cycle is central for maintaining adequate liquidity.

Outlook: Stable

Acuite believes that SL will maintain a 'Stable' business risk profile over the medium term. The company will continue to benefit from its experienced management, established presence and reputed clientele. The outlook may be revised to 'Positive' in case the company registers healthy growth in revenues while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in the company's revenues or profit margins, or in case of deterioration in the company's financial risk profile and liquidity position or delay in completion of its projects or further deterioration in its working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	1,012.56	907.33	1,115.90
EBITDA	Rs. Cr.	151.90	121.41	151.62
PAT	Rs. Cr.	30.43	28.84	48.10
EBITDA Margin	(%)	15.00	13.38	13.59
PAT Margin	(%)	3.01	3.18	4.31
ROCE	(%)	12.29	11.90	29.63
Total Debt/Tangible Net Worth	Times	0.91	0.85	0.92
PBDIT/Interest	Times	1.82	1.79	1.89
Total Debt/PBDIT	Times	3.52	3.33	2.90
Gross Current Assets (Days)	Days	385	379	248

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Service Sector Entities - <https://www.acuite.in/view-rating-criteria-8.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-40.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
04-May-2018	Cash Credit	Long Term	23.00	ACUITE A / Stable (Assigned)
	Cash Credit	Long Term	130.00	ACUITE A / Stable (Assigned)
	Standby line of credit	Short Term	20.00	ACUITE A1 (Assigned)
	Cash Credit	Long Term	105.00	ACUITE A / Stable (Assigned)
	Cash Credit	Long Term	32.00	ACUITE A / Stable (Assigned)

Cash Credit	Long Term	11.00	ACUITE A / Stable (Assigned)
Bank guarantee	Short Term	164.00	ACUITE A1 (Assigned)
Bank guarantee	Short Term	225.00	ACUITE A1 (Assigned)
Bank guarantee	Short Term	225.00	ACUITE A1 (Assigned)
Bank guarantee	Short Term	230.00	ACUITE A1 (Assigned)
Bank guarantee	Short Term	189.00	ACUITE A1 (Assigned)
Proposed bank facilities	Short Term	16.00	ACUITE A1 (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	23.00	ACUITE A / Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	130.00	ACUITE A / Stable (Reaffirmed)
Standby line of credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A1 (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	105.00	ACUITE A / Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	32.00	ACUITE A / Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	11.00	ACUITE A / Stable (Reaffirmed)
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	164.00	ACUITE A1 (Reaffirmed)
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	225.00	ACUITE A1 (Reaffirmed)
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	225.00	ACUITE A1 (Reaffirmed)
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	230.00	ACUITE A1 (Reaffirmed)
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	189.00	ACUITE A1 (Reaffirmed)
Proposed bank facilities	Not Applicable	Not Applicable	Not Applicable	16.00	ACUITE A1 (Reaffirmed)

Contacts

Analytical	Rating Desk
<p>Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in</p> <p>Manmitha Sodhi Analyst - Rating Operations Tel: 022-49294031 manmitha.sodhi@acuite.in</p>	<p>Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in</p>

About Acuite Ratings & Research:

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