Rating Rationale

SMS Limited

13 November 2020

Brickwork Ratings reaffirms/assigns the rating for the bank loan facilities of SMS Limited

Particulars

Facility	Tenor	Previous Amount (Rs. Crs)	Present Amount (Rs. Crs)	Previous Rating** (August-2019)	Present Rating*
Fund Based					
Cash Credit	Long Term	300.00	300.00	BWR A/Stable	BWR A/Stable Reaffirmed
Stand by line of credit (SLOC)		20.00	20.00		
Non Fund Based					
Bank Guarantee	Short Term	949.00	956.00	BWR A2+	BWR A2+ Reaffirmed
LC interchangeability with BG (Sub-limit of BG)		(125.00)	(66.00)		
Proposed Non Fund Based		-	79.00	-	BWR A2+ Assigned
Letter of Credit (LC)		-	15.00	-	
Total		1269.00	1370.00	(INR One Thousand Three Hundred and Seventy Crores Only)	

*Please refer to BWR website www.brickworkratings.com/ for the definition of the ratings.
**Advisory as on 18 August 2020

Brickwork Ratings (BWR) has principally relied on the consolidated audited financials upto FY19, key consolidated provisional financials for FY20, standalone audited financial results up to FY20, and projected financials, publicly available information and information/clarification provided by the management of SMS Ltd (SMSL or the company).

Rating Action:

BWR has reaffirmed the long-term rating at BWR A with Stable outlook and reaffirmed/assigned the short-term rating at BWR A2+ for the bank loan facilities of Rs. 1370 Crs of SMSL.

Rationale:

The rating reaffirmation continues to factor in the promoters' long-term experience in the Engineering, Procurement and Construction (EPC) industry, SMSL's status as a Class A contractor, and ability to secure large contracts and track record of project execution capabilities across sectors such as mining, irrigation, road and bridges, highway, electrical, enviro and clean energy, and railways. The ratings derive strength from the large and reputed customer profile, which ensures steady order flows through the year, and low counterparty credit risks as the clients are all government entities.

The ratings, however, are constrained by the shortfall in the company's envisaged performance for FY20 and estimated FY21 (on a standalone basis), but on a consolidated basis, net cash accruals are expected to be moderate to meet annual principal and interest obligations in FY21, along with the working-capital-intensive nature of operations and high utilisation of sanctioned working capital facilities, and corporate guarantee extended to subsidiaries.

BWR believes SMS Limited's business risk profile will be maintained over the medium term. The Stable outlook indicates a low likelihood of rating change over the medium term.

Key Rating Determinants

Credit Strengths:

Long-term experience of promoters: The Company's promoters have extensive experience of more than fifty years working as an (EPC) contractor in sectors such as mining, irrigation, road and bridges, highway, electrical, enviro and clean energy, and railways. The company mostly undertakes contracts for central departments. SMSL has successfully executed various projects in the past, and the current order book comprises around 45 orders spread across multiple regions. SMSL is a professionally managed company headed by Mr. Anand Sancheti (Managing Director) and other family members.SMSL continues to be a closely held company with the family members of Sancheti family directly having ~78% of the total shareholding, and the remaining stake of ~22% is held by Best Power Plus Private Limited, which in turn is being held by the members of Sancheti family.

Financial risk profile: On a consolidated basis, SMSL's financial risk profile is driven by a low gearing and moderate cushion vis-a-vis the debt repayment obligations. The company reported a total operating income of Rs. 1755.92 Crs with an EBITDA of Rs. 516.52 Crs and a PAT of Rs. 84.86 Crs in FY19 vis-a-vis the total operating income of Rs. 1543.74 Crs with an EBITDA of Rs. 413.33 Crs and a PAT of Rs. 34.28 Crs. As per FY20 (provisional financials), the company reported a total income of Rs. 1644.12 Crs with an EBITDA of Rs. 551.47 Crs and a PAT of Rs. 127.16 Crs. On a consolidated basis, the company is expected to have fair net cash accruals to meet the annual principal debt obligation of Rs. 137.85 Crs in FY21 and Rs. 194.56 Crs in FY22.

Revenue visibility: As of June 2020, the company had an outstanding order book position of Rs. 8128.86 Crs, an increase of ~90% over the earlier order book position of Rs. 4280.01 Crs, driven by growth in the order book of the mining segment from Rs. 2170.79 Crs to Rs. 6170.65 Crs, thereby providing medium- to long-term revenue visibility. The work order of mining takes 8-10 years to complete as these projects are long-term in nature, and the size of the project is also comparatively high; this result in a higher percentage value for the mining order book position, which stood at 75.91% out of the total O/s order book. For the remaining segment, the company's order book position is spread across such as irrigation (2.71%), road and bridges (6.44%), environment (4.58%), electrical (2.07%), railways (6.67%) and defence and others (1.62%).

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

Credit Weaknesses:

High working capital intensity: The company's working capital intensity remains high, primarily due to high receivable levels, coupled with the relatively high utilisation of working capital facilities, with the average utilisation of fund-based working capital facility in the range of 69.31% to 98.27% and average utilisation of non-fund-based working facility in the range of 75.16% to 97.51% across the banks.

High competitive intensity: There is intense competition, given the moderate complexity of the work involved in sectors such as roads, bridges and electrical EPC works, along with the 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.

Corporate guarantee extended by SMS Ltd: SMS Ltd extended a corporate guarantee amounting to Rs. 421.67 Crs as of 31 March 2020, of which Rs. 301.06 Crs was extended to Maharashtra Enviro Power Limited, which as per FY20 (Provisional Numbers) reported sales of Rs. 116.82 Crs with an EBITDA of Rs. 63.15 Crs and a PAT of Rs. 11.45 Crs. The company also extended a corporate guarantee to Spark Mall & Parking Pvt Ltd (erstwhile SMS Parking Solutions Pvt Ltd) amounting to Rs. 120.6 Crs, which reported a PAT loss of Rs. 13.21 Crs on sales of Rs. 6.64 Crs as per FY20 (provisional financials). Spark Mall & Parking Pvt Ltd has a principal repayment obligation of Rs. 20.67 Crs in FY21, which is expected to be funded through cash flows from group companies. Of the guarantee amount of Rs. 120.6 Crs, Rs. 85.91 Crs has been withdrawn as informed by the company. These guarantees are extended to subsidiaries wherein the financial performance has been consolidated with SMS Ltd's consolidated financials; the major portion of the corporate guarantee pertains to Maharashtra Enviro Power Limited, of Rs. 301.06 Crs, which is expected to generate fair net cash accruals vis-a-vis debt repayment obligations.

Shortfall in envisaged performance: There was a shortfall in the company's envisaged performance for FY20 and estimated FY21 (on a standalone basis); however, on a consolidated basis, net cash accruals are expected to be moderate to meet the annual principal and interest obligations in FY21.

Pending litigation and remarks by auditor for SMSL subsidiary SMSTPL: As per the auditor remarks in FY19 consolidated financials, the net-worth of the SMSTPL has significantly eroded and turned negative as at the end of the previous year. The company has closed its phone a fleet taxi operation in the earlier years 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 DBO subscription scheme in place of existing taxi operations from the earlier years. 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 an unpaid amount of Rs. 8.54 Crs, as informed by the company no corporate guarantee has been extended by SMSL to SMSTPL, and the liability pertaining to this litigation will not fall on SMSL.

Disruption in construction activities on account of Covid-19: The disruption in construction activities due to the Covid-19 pandemic is likely to impact billings in the near to medium term with revised working conditions at the project site.

Rating Sensitivities:

Positive:

- A substantial increase in the scale of operations, coupled with an improvement in credit metrics and the diversification of the order book, while maintaining profitability on a sustained basis

Negative:

- Higher-than-expected equity commitments/loan and advances or corporate guarantees given to subsidiaries/group companies and/or a delay in the receipt of the envisaged short-term loan and advances extended to subsidiaries
- Lower-than-anticipated billing or elongation of working capital cycle depletes the company's reserve and/or any reduction in the visibility of revenue due to the cancellation/stalling of projects

Liquidity (Adequate): On a standalone basis, as of 31 October 2020, cash on hand stood at Rs.3.06 Crs, the balance with banks in the current account at Rs.0.28 Cr, and investment in fixed deposit Rs. 77.35 Cr (Pledged) and out of the sanctioned fund-based working capital limit of Rs. 320 Crs, the utilised limit stood at Rs. 291.17 Crs (as on 31 October 2020), resulting in a cushion of Rs. 28.83 Crs. SMSL has three key subsidiaries, namely, Ayodhya Gorakhpur SMS Tolls Private Limited, SMS-AABS India Tollways Private Limited and Maharashtra Enviro Private Limited, and the unencumbered cash and cash equivalents of these three entities stood at Rs. 39.41 Crs as of 31 October 2020.

Analytical Approach:

For arriving at its ratings, BWR has taken a view based on the consolidated financials of SMSL. BWR has applied its rating methodology as detailed in the Rating Criteria below (hyperlinks provided at the end of this rationale).

About the Company:

Set-up 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 the younger son of Mr. Shaktikumar Sancheti, Mr. Anand Sancheti, the company's managing director, and other family members.

The company caters to diversified sectors, such as mining, toll management, irrigations, road and O&M, EPC, and urban development, with reputed clientele, including government agencies, such as the NHAI, PWD, Uranium Corporation of India (UCIL), South Eastern Coalfields Limited (SECL) and Indian Railways Construction Company. The company has many subsidiaries/SPVs that operate in these lines.

The company is closely held by the members of Sancheti family, with Mr. Anand Shaktikumar Sancheti having a 23.50% stake, Ajay Shaktikumar Sancheti 23.50% and Abhay Harakchand Sancheti 31.33%., Mr. Abhay Sancheti demised on 22 January 2020; pending a succession certificate, the shares of Abhay H. Sancheti have not been transferred to his legal heirs and the remaining stake is held by Best Power Plus Private Limited, which in turn, is held by members of the Sancheti family

Company's Financial Performance (Consolidated)$:

Key Financial Parameters	FY18 (A)	FY19 (A)
Total Operating Income (Rs. Crs)	1543.74	1755.92
PAT (Rs. Crs)	34.28	84.86
Total Debt (Rs. Crs)	1183.11	1463.54
Adjusted Tangible Net worth (Rs. Crs)	649.54	719.05

Adjusted D/E (times)	1.82	2.04

$As per BWR calculations

On a consolidated basis as per FY20 (Provisional Financials), the company has reported total income of Rs. 1644.12 Crs with Ebitda of Rs. 551.47 and PAT of Rs. 127.16 Crs.

Company's Financial Performance (Standalone)$:

Key Financial Parameters	FY19 (A)	FY20 (A)
Total Operating Income (Rs. Crs)	1021.16	890.08
PAT (Rs. Crs)	30.28	48.31
Total Debt (Rs. Crs)	542.61	572.19
Tangible Net worth (Rs. Crs)	594.15	641.05
D/E (times)	0.91	0.89

$As per BWR calculations

Rating History for the last three years (including withdrawn/suspended ratings):

SI. No.	Instrument/Facility	Current Rating (Year 2020)			Rating History		
		Type (Long Term/Short Term)	Amount (Rs. Crs)	Rating	August-2019**	April-2018	March-2017
1	Cash Credit	Long Term	300.00	BWR A/Stable	BWR A/Stable	BWR A/Stable	BWR A/Stable
2	Stand by line of credit (SLOC)	Long Term	20.00	BWR A/Stable	BWR A/Stable	BWR A/Stable	BWR A/Stable
3	Bank Guarantee	Short Term	956.00	BWR A2+	BWR A2+	BWR A2+	BWR A2+
4	LC interchangeability with BG (Sub-limit of BG)	Short Term	(66.00)	BWR A2+	BWR A2+	BWR A2+	BWR A2+
5	Proposed Non Fund Based	Short Term	79.00	BWR A2+	-	-	-
6	Letter of Credit (LC)	Short Term	15.00	BWR A2+	-	-	-
Total			1370.00	(INR One Thousand Three Hundred and Seventy Crores Only)			

**Advisory as on 18-Aug-2020

N/A: Not Available

Status of non-cooperation with previous CRA (if applicable): Not Applicable

Any other information: NIL

COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- **General Criteria**
- **Approach to Financial Ratios**
- **Infrastructure Sector**
- **Short Term Debt**

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DISCLAIMER Brickwork Ratings (BWR) has assigned the rating based on the information obtained from the issuer and other reliable sources, which are deemed to be accurate. BWR has taken considerable steps to avoid any data distortion; however, it does not examine the precision or completeness of the information obtained. And hence, the information in this report is presented "as is" without any express or implied warranty of any kind. BWR does not make any representation in respect to the truth or accuracy of any such information. The rating assigned by BWR should be treated as an opinion rather than a recommendation to buy, sell or hold the rated instrument and BWR shall not be liable for any losses incurred by users from any use of this report or its contents. BWR has the right to change, suspend or withdraw the ratings at any time for any reasons.