Press Release

SMS Limited

April 4, 2023

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	355.05 (includes proposed facility of Rs. 30.00 crore)	IVR A-/ Stable (IVR A minus with Stable outlook)	Assigned	Simple
Short Term Bank Facilities	1044.95 (includes proposed facility of Rs. 13.95 crore)	IVR A2+ (IVR A two plus)	Assigned	Simple
Total	**1400.00 (INR One thousand four hundred crore only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of SMS Limited (SMSL) derives strength from established track record of operations and experienced management, diversified and reputed client base reduces counterparty risk to a large extent, steady increase in the topline and profit in FY22 and 9MFY22 (provisional), comfortable coverage indicators, and Government's thrust on infrastructure. However, the ratings are constrained on account of the company's stretched working capital cycle, high exposure to subsidiaries/group entities and related parties in the form of investment and loans advances and high contingent liability and exposure in the form of corporate guarantee.

Key Rating Sensitivities:

Upward Factors

- Sustained growth in topline with improvement in profitability metrics thereby leading to overall improvement in cash accruals on a sustained basis.
- Improvement in working capital cycle, thus improving the liquidity profile of the company.
- Improvement in capital structure leading to improvement in leverage ratios and coverage indicators.

- A substantial reduction in the contingent liabilities and corporate guarantee extended to the group/ subsidiary companies.

Downward Factors

- Dip in operating income and/or profitability impacting the debt protection metrics.
- Any significant increase in the working capital requirements of the company exerting pressure on the liquidity position of the company.
- Slower-than-expected realization of investments/loans and advances from the subsidiaries or group companies, and/ or further increase in the investments/loans and advances to them.
- Higher-than-expected liability arising out of contingent liabilities and/or corporate/performance guarantee extended to various group companies.
- Any delay in the execution of the order book, leading to the elongation of the working capital cycle.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

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

The company has an established presence in the infrastructure sector of nearly six 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. 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.

Promoted by one Sancheti family of Nagpur, the promoters and top management has extensive industry experience which has enabled the company to build and maintain long standing relationship with its key clients. The top management consist of highly skilled personnel which has led to secular growth of the organisation. 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.

- **Diversified and reputed client base reduces counterparty risk to a large extent**

The company primarily works for Government agencies such as the NHAI, PWD, Uranium Corporation of India (UCIL), South Eastern Coalfields Limited (SECL), Indian Railways Construction Company, RVNL, Hindustan Copper Limited, Water Resource Department - Govt. Of Maharashtra, ONGC, among others. Since the client base of the company is majorly Government departments, the counterparty risk remains low. 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.

- **Healthy order book position, albeit concentrated in nature**

The company had Rs. 8926.78 crore of work in hand as on January 1, 2023, which translates into 5.1x of FY22 revenue, it significantly enhances its revenue visibility. However, the order book is concentrated in nature since ~75% of the orders comprise projects in the mining segment, and the remaining 25% comprises projects in the roads, railway, irrigation, defence, environment and electrical segments. Infomerics notes that the company's ability for successful execution of the current healthy order book in due time will remain a key rating factor, going ahead.

- **Steady increase in the topline and profit in FY22 and 9MFY22 (provisional)**

Total operating income declined by 8.56% in FY20 and 7.51% in FY21, due to covid led delays in execution of projects and slowdown in revenues from most business verticals such as toll collection, parking, EPC etc. In FY22, with TOI increased by ~18% y-o-y to Rs. 1778.16 crore on the back of higher execution of projects and increase in revenues at SMS Limited (standalone) and its subsidiaries Spark Mall, Maharashtra Enviro Power, SMS- ABBS India Tollways. In FY22 The company reported EBITDA of Rs. 585.88 crore which moderated slightly by 0.40% due to increase in operational cost. PAT was Rs. 148.21 crore up 17.84% y-o-y primarily due to a decline in interest charge and higher other non-operational income which primarily consist of interest on loans given by the company. EBITDA margin and PAT margin were 32.95% and 8.16% in FY22 compared with EBITDA margin and PAT margin of 39.22% and 8.19% in FY21. The highest contributors to the EBITDA margin are the subsidiaries –

Spark Mall and Parking Limited, Maharashtra Enviro Power Limited, SMS- ABBS India Tollways Private Limited, SMS Envoclean Private Limited and Ayodhya Gorakhpur Private Limited. In the first nine months of FY23 the company has reported TOI of ~Rs. 1409 crore up 25% y-o-y. EBITDA and PBT are Rs. 473.89 crore and Rs. 195.34 crore, respectively up 27% and 91% y-o-y.

- **Comfortable coverage indicators**

Led by an increase in profit in FY22, the debt service coverage indicators of the company has witnessed an improvement. In FY22 EBITDA and GCA was Rs. 585.88 crore and Rs. 382.17 crore, respectively. Thus the debt protection metrics appeared moderate with DSCR of 1.60 crore and ISCR of 3.23 in FY22 compared with DSCR of 1.64 crore and ISCR of 2.74 in FY21.

- **Government's thrust on infrastructure**

The infrastructure sector has seen some major developments, investments and support from the government in the recent past. In Union Budget 2022-23, the government has given a massive push to the infrastructure sector by allocating Rs. 10 lakh crore to enhance the infrastructure sector. AIPL with more than fifteen years of experience in executing projects in civil infrastructure development is likely to be benefitted in near to medium term.

Key Rating Weaknesses

- **Stretched working capital cycle**

The working capital cycle of the company was high at 142 days in FY22 due to EPC nature of business, though the same moderated from 173 days in FY21. The stretched working capital cycle was due to high collection period 102 days in FY22 (125 days in FY21), high inventory holding period of 105 days in FY22 (133 days in FY21). The company got a credit period of 65 days from its supplier in FY22 (85 days in FY21). A moderation in working capital cycle will be one of the key rating factor going forward.

- **High exposure to subsidiaries/group entities and related parties in the form of investment and loans advances**

In FY22, SMSL's exposure to related parties in the form of investment and loans advances was high at Rs. 574.58 crore (Rs. 550.72 crore in FY21). As of March 31, 2022, the company has unsecured loans from directors of Rs. 27.40 crore which has been treated as quasi equity.

The same has increased to Rs. 37.90 crore in FY23 (projected). Taking the quasi equity and the loans and advances extended by the company into consideration the company's adjusted networth was Rs. 276.81 crore as on March 31, 2022, up from Rs. 238.71 crore as on March 31, 2021. The increase was due to accretion of profit to reserves. As on March 31, 2022, total debt declined to Rs. 1502.27 crore down from Rs. 1613.76 crore as on March 31, 2021, due to scheduled repayment of term loan and decline in bank borrowings. Considering the adjusted networth and total debt, the capital structure ratios as of March 31, 2022, looked leveraged with long term debt equity ratio of 3.97 times (4.88 times in FY21), overall gearing of 5.04 (6.33 times in FY21) and TOL/TNW of 7.72 times (9.54 times in FY21).

The company is exposed to risks associated with the timely recoverability of the aforesaid investment and loans advances, and the realization of the same as per the envisaged timelines will be a key rating sensitivity. Also any further extension of the loans/ advances to group companies/ subsidiaries will be a credit rating metric.

- **High contingent liability and exposure in the form of corporate guarantee**

SMSL, on a consolidated basis, had high contingent liabilities as on 31 March 2022 of Rs.550.25 crore as on 31 March 2022 (FY21: Rs. 575.61 crore), a large part of which comprises demands contested by the company with respect to service tax. The company has also extended Corporate Guarantees of Rs. 267.3 crore in FY22, which has reduced from Rs. 318.8 crore in FY21. In addition to the CG, there are performance guarantees of Rs. 55.67 crore in FY22 which has reduced from Rs. 61.78 crore in FY21. The crystallisation of such liabilities may impact the company's liquidity profile.

Analytical Approach: Consolidated

For the purpose of ratings we have considered consolidated financial statements of SMS Ltd. which includes its subsidiaries and joint ventures. This is because these companies, collectively referred to as the SMS Group, are under control of same promoters, have business and financial linkages. The list of Companies is given in Annexure 2.

Applicable Criteria:

Rating Methodology for Infrastructure Companies

[Financial Ratios & Interpretation (Non- Financial Sector)]

[Criteria of assigning rating outlook]

Liquidity – Adequate

The liquidity position of the company is expected to remain adequate in the near to medium term with sufficient accruals and to meet the term debt repayment in the period FY23-FY25. The average fund based utilisation for the twelve months ended January 2023 was ~92% indicating almost full utilisation. In addition the company has free cash and bank balance of Rs. 96.94 crore as on March 31, 2022, which provides support to the company's liquidity position.

About the company

Set-up as a proprietorship firm in 1963 (headquartered in Nagpur) 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 Rail, Road, Irrigation, Operation & Maintenance of Roads and Tolling, Underground Mining & Construction (Coal, Metal & Structures), Environment, which includes sewage treatment plant, effluent treatment plant, bio-medical waste treatment, common hazardous waste treatment Bio-Mining, co-processing, Electrical, Transmission and Distribution Infrastructure, Automated Car Park, Hospitals and Hospitality. The promoters have on field experience of nearly 6 decades in execution & completion of various projects.

The company primarily caters to reputed clientele which includes 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.

Financials (Consolidated):

(Rs. Crore)

For the year ended* / As on	31-March-21 (Audited)	31-March-22 (Audited)
Total Operating Income	1499.69	1778.16
EBITDA	588.24	585.88
PAT	125.77	148.21
Total Debt	1613.76	1502.27
Tangible Net-worth (adjusted)	238.71	276.81
EBITDA Margin (%)	39.22	32.95
PAT Margin (%)	8.19	8.16
Overall Gearing Ratio (x)	2.35	2.02

Classification as per Infomerics' standards

Financials (Standalone):

(Rs. Crore)

For the year ended* / As on	31-March-21 (Audited)	31-March-22 (Audited)
Total Operating Income	683.31	906.68
EBITDA	116.22	120.00
PAT	-21.84	36.46
Total Debt	662.92	628.65
Tangible Net-worth	622.15	682.24
EBITDA Margin (%)	17.01	13.24
PAT Margin (%)	-3.07	3.92
Overall Gearing Ratio (x)	1.07	0.92

Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
1.	Term Loans*	Long Term	82.03	IVR A-/ Stable	-	-	-
2.	Cash Credit	Long Term	273.02	IVR A-/ Stable	-	-	-
3.	Letter of Credit	Short Term	15.00	IVR A2+	-	-	-
4.	Bank Guarantee**	Short Term	1029.95	IVR A2+	-	-	-

**includes proposed Term loan of Rs. 30.00 crore*
***includes proposed bank guarantee of Rs. 13.95 crore*

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About Infomerics Ratings:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

For more information visit www.infomerics.com

Disclaimer: Infomerics ratings are based on information provided by the issuer on an 'as is where is' basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change or withdraw the credit ratings at any point in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information, which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
GECL 1	-	-	FY27	23.56	IVR A-/ Stable
GECL 2	-	-	FY26	14.17	IVR A-/ Stable
GECL 3	-	-	FY28	10.34	IVR A-/ Stable
GECL 4	-	-	FY27	2.37	IVR A-/ Stable
GECL 5	-	-	FY27	1.59	IVR A-/ Stable
Proposed Term Loan	-	-	-	30.00	IVR A-/ Stable
Cash Credit 1	-	-	-	115.00	IVR A-/ Stable
Cash Credit 2	-	-	-	102.16	IVR A-/ Stable
Cash Credit 3	-	-	-	28.32	IVR A-/ Stable
Cash Credit 4	-	-	-	18.69	IVR A-/ Stable
Cash Credit 5	-	-	-	8.85	IVR A-/ Stable
Letter of Credit	-	-	-	15.00	IVR A2+
Bank Guarantee 1	-	-	-	207.00	IVR A2+
Bank Guarantee 2	-	-	-	225.00	IVR A2+
Bank Guarantee* 3	-	-	-	230.00	IVR A2+
Bank Guarantee** 4	-	-	-	164.00	IVR A2+
Bank Guarantee*** 5	-	-	-	190.00	IVR A2+
Proposed Bank Guarantee	-	-	-	13.95	IVR A2+

**LC of Rs. 26.00 crore is a sublimit of Bank Guarantee*
***LC of Rs. 20.00 crore is a sublimit of Bank Guarantee*
****LC of Rs. 20.00 crore is a sublimit of Bank Guarantee*

Annexure 2: List of companies considered for consolidated analysis:

Name of the company	Relationship	Shareholding as on March 31, 2022	Consolidation Approach
SMS Envoclean Pvt Ltd	Subsidiary	56%	Full Consolidation
SMS Infolink Pvt Ltd	Subsidiary	100%	Full Consolidation
SMS Hazardous Waste Management Private Limited (erstwhile known as SMS Mines Developers Pvt. Ltd.)	Subsidiary	51%	Full Consolidation
Spark Mall and Parking Pvt Ltd	Subsidiary	100%	Full Consolidation
SMS Taxicabs Pvt Ltd	Subsidiary	60%	Full Consolidation
SMS Vidyut Pvt Ltd	Subsidiary	100%	Full Consolidation
SMS watergrace BMW Pvt Ltd	Subsidiary	56%	Full Consolidation
SMS Tolls & Developers Ltd.	Subsidiary	100%	Full Consolidation
SMS -AABS India Tollways Pvt Ltd	Subsidiary	51%	Full Consolidation
SMS Waste Management Pvt Ltd	Subsidiary	100%	Full Consolidation
PT SMS Minerals International	Subsidiary	80%	Full Consolidation
Ayodhya Gorakpur SMS Tolls Pvt Ltd	Subsidiary	100%	Full Consolidation
Maharashtra Enviro Power Ltd	Subsidiary	92.08%	Full Consolidation
PT SMS Mines Indonesia	Subsidiary	100%	Full Consolidation
SMS Mining Ltd.	Subsidiary	100%	Full Consolidation
SMS Infrastructure Ltd. & D. Thakkar Construction Pvt. Ltd. JV	Joint Venture	70%	Part Consolidation
SMS Infrastructure Ltd - Aarti Infra-Projects Pvt. Ltd. J.V.	Joint Venture	51%	Part Consolidation
SMS Infrastructure Ltd. Shreenath Enterprises J.V.*	Joint Venture	37%	Part Consolidation
Shaktikumar M. Sancheti Ltd. & S N Thakkar Construction Pvt. Ltd. JV	Joint Venture	65%	Part Consolidation
GSJ Envo Ltd. In consortium with SMS Infrastructure Ltd. (AOP)	Joint Venture	70%	Part Consolidation
SMSIL KTCO (JV)	Joint Venture	50%	Part Consolidation
Bhartia SMSIL (JV) *	Joint Venture	49%	Part Consolidation
SMSIL-MBPL-BRAPL (JV)	Joint Venture	57%	Part Consolidation
GDCL-SMSIL (J.V.)	Joint Venture	40%	Part Consolidation
SMSL-SRRCIPL (J V)	Joint Venture	60%	Part Consolidation
SRRCIPL-SMSL-BEKEM JV	Joint Venture	20%	Part Consolidation
Sanbro Corporation	Joint Venture	26%	Part Consolidation
SMSIL-MBPL (JV)	Joint Venture	63%	Part Consolidation

SMSL-SAKET (JV)	Joint Venture	40%	Part Consolidation
Meghe SMS Health Sciences Consortium (SPV)	Joint Venture	50%	Part Consolidation
AGIPL -SMSL (JV)	Joint Venture	20%	Part Consolidation
SRRCIPL - SMSL (JV)	Joint Venture	30%	Part Consolidation

Annexure 3: Facility wise lender details: https://www.infomerics.com/admin/prfiles/Lender-SMS-04-04-2023.pdf

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com