

June 16, 2023

## Shree Gautam Construction Co. Ltd.: Ratings reaffirmed

### Summary of rating action

| Instrument*                           | Previous Rated Amount<br>(Rs crore) | Current Rated Amount<br>(Rs. crore) | Rating Action                           |
|---------------------------------------|-------------------------------------|-------------------------------------|---|
| Long-term – Fund-based/term loan      | 30.00                               | 30.00                               | [ICRA]A- (Stable); Reaffirmed           |
| Long-term – Fund-based/cash credit    | 68.00                               | 68.00                               | [ICRA]A- (Stable); Reaffirmed           |
| Long-term/Short-term – Non-fund based | 370.00                              | 370.00                              | [ICRA]A- (Stable)/[ICRA]A2+; Reaffirmed |
| <b>Total</b>                          | <b>468.00</b>                       | <b>468.00</b>                       |   |

\*Instrument details are provided in Annexure I

### Rationale

The ratings continue to derive comfort from Shree Gautam Construction Co. Ltd.'s (SGCCL) comfortable financial risk profile, reflected in healthy operating margin, low leverage, and comfortable debt coverage indicators with interest coverage and DSCR of 22.9 times and 6.6 times, respectively, in FY2022, against 12.3 times and 4.4 times, respectively, in 9M FY2023. The ratings draw comfort from the medium-term revenue visibility due to its sizeable order book of Rs. 3,947 crore as on April 01, 2023 (order book to operating income (OI) ratio of nearly 5.0 times of FY2023's estimated OI), which was supported by fresh order inflows of ~Rs. 2,500 crore in FY2023. The company's operating profit margin has improved over the past few years and stood at around 21% in FY2022 and is anticipated to be 19-20% in FY2023, supported by higher proportion of revenues from the margin-accretive civil construction projects and economies of scale benefits. The ratings favourably factor in the extensive experience of the promoters and SGCCL's established track record in the construction industry for over four decades.

The ratings, however, remain constrained by the execution risk as about 70% of its pending order book is in the nascent stages of execution (less than 10% progress). Further, the order book is concentrated on few clients and geographies - nearly 64% of the pending order book as on April 01, 2023, was from the Public Works Department (PWD), Assam and 97% of it was limited to a single geography – Assam. Nonetheless, with a major portion of its projects being funded through Central Government schemes, the counterparty risk is mitigated to an extent. The ratings are constrained by the moderate level of working capital intensity, particularly during the peak season, attributable to longer bill realisation period, retention money blockage and seasonality in operations. The ratings are also constrained by the absence of price escalation clause in many of its civil construction contracts (civil construction projects accounted for 59% of its pending order book as on April 01, 2023), which exposes its profitability to any sharp movements in raw material prices. While the company factors in the risk of hikes in its pricing while bidding for the projects, a sharp increase in raw material prices could adversely impact its profitability over the near to medium term.

ICRA takes cognisance of an investigation and arrest carried out by the Central Bureau of Investigation (CBI) in July 2019, involving former employees/directors and a promoter of the company. While no material impact has been noted on SGCCL's financial or operational profile thus far, any adverse outcome of the investigation impacting its credit profile, going forward, will remain a key rating sensitivity.

### Key rating drivers and their description

#### Credit strengths

**Healthy order book with adequate revenue visibility** – SGCCL had an outstanding order book of Rs. 3,947 crore as on April 01, 2023, which provides robust medium-term revenue visibility. The company's robust order book position was supported by healthy fresh order inflows of nearly ~Rs. 2,500 crore in FY2023.

**Healthy profitability and cash accruals, low leverage, and comfortable debt coverage metrics** – SGCCCL has a healthy financial profile, marked by its robust profitability, comfortable capital structure and robust coverage indicators. The company's operating margin remained robust at 19-21% in the recent past (FY22 and FY23), supported by the relatively better margins in its recent projects. This, coupled with the revenue growth, supported better fixed cost absorption. However, ICRA notes the absence of price escalation clause in many of its civil construction contracts (civil construction projects accounted for 59% of the company's pending order book as on April 01, 2023), which exposes its profitability to any sharp movements in raw material prices. The improving profitability over the last few years had a positive impact on its coverage indicators, which remained robust, with interest coverage and DSCR of 12.3 times and 4.4 times, respectively, in FY2022, and 12.3 times and 4.4 times, respectively, in 9M FY2023. Further, it has a conservative leverage level, supported by limited dependence on borrowings and advances. The TOL/TNW ratio remained comfortable at 0.4 times as on December 31, 2022.

**Established track record of operations** – SGCCCL has an established track record of operations in the construction sector. The entity was initially set up as a partnership firm by the Singhi family in 1979. The undertaking was later converted into a private company in 1998. Over the years, it has been undertaking building and road construction works, primarily in Assam. PWD, Assam is a key client of the company.

### Credit challenges

**Concentrated order book and moderate execution risks** – SGCCCL faces revenue concentration risk with majority of the projects (64%) arising from a single client – PWD, Assam – and limited to a single geography (97%) – Assam. Nonetheless, the company's long track record of operations in the given geography provides comfort, to an extent. Further, the company faces high execution risks with nearly 70% of its pending order book in the nascent stages of execution.

**Moderate working capital intensity** – The company has moderate working capital intensity with longer receivables period and retention amounts blocked in some of the ongoing projects. Further, in the peak season (Q3 of each year), the working capital requirement is relatively higher. The bill realisation period from its key client, PWD Assam, is on the higher side at 30-45 days, with billing remittances being limited during April-May. Moreover, the retention amount in PWD projects cannot be released before the completion of the projects, with a portion remaining blocked during the defect liability period as well. It also faces some seasonality in operations, as the project execution remains affected by heavy monsoon during the first half of the fiscal.

**Sector-related and other risks** – SGCCCL is exposed to risks associated with construction entities, including the bank guarantee-related risks. ICRA has taken cognisance of an ongoing investigation carried out by the CBI in July 2019, involving former employees/directors and a promoter of the company. While no material impact has been noted on the financial or operational profile of SGCCCL thus far, any adverse outcome of the investigation impacting the company's financial flexibility, going forward, will remain a key rating sensitivity.

### Liquidity position: Adequate

The company had an unencumbered cash balance of ~Rs. 100.0 crore as on March 31, 2023, and unutilised fund-based working capital limit, which provides adequate liquidity cushion. The company sparingly utilises its fund-based working capital limits. However, its non-fund based limits utilisation was relatively higher with an average utilisation of 86% of the sanctioned limits during January 2022 to March 2023. Nonetheless, the recent enhancement in bank guarantee limits provides comfort, to an extent. The debt repayments of nearly Rs. 11 crore falling due in FY2024 can be comfortably met through its estimated cash flow from operations.

### Rating sensitivities

**Positive factors** – The ratings maybe upgraded, if SGCCCL achieves greater diversification in terms of geographical presence and clientele, significant and sustained improvement in its scale and profitability, while maintaining its cash conversion cycle at adequate levels.

**Negative factors** – The ratings may be downgraded, if there is any slowdown in order inflow or significantly lower-than-anticipated billing or an increase in working capital requirements that adversely impacts the liquidity position. Additionally, any adverse outcome of the ongoing CBI investigation, affecting the company’s financial flexibility may trigger a rating downgrade.

## Analytical approach

| Analytical Approach             | Comments   |
|---------------------------------|--|
| Applicable rating methodologies | <a href="#">Corporate Credit Rating Methodology</a><br><a href="#">Rating Methodology - Construction</a> |
| Parent/Group support            | Not Applicable   |
| Consolidation/Standalone        | Standalone   |

## About the company

SGCCL is a Guwahati-based engineering procurement and construction (EPC) company, that undertakes infrastructure projects. The company is promoted by the Singhi family and has a three-decade track record in the sector. It undertakes tender-based works for construction of buildings, roads, bridges, primarily in Assam and Meghalaya. One of its key clients is PWD, Assam.

## Key financial indicators (Audited)

| SGCCL  | FY2021 | FY2022 | 9M FY2023* |
|--|--------|--------|------------|
| Operating income (Rs. crore)                         | 609.91 | 661.35 | 438.33     |
| PAT (Rs. crore)                                      | 69.37  | 95.73  | 51.53      |
| OPBDIT/OI (%)  | 17.87% | 21.32% | 19.25%     |
| PAT/OI (%)   | 11.37% | 14.48% | 11.76%     |
| Total outside liabilities/Tangible net worth (times) | 0.63   | 0.41   | 0.38       |
| Total debt/OPBDIT (times)                            | 0.31   | 0.27   | 0.71       |
| Interest coverage (times)                            | 15.48  | 22.93  | 12.33      |

(Source: SGCCL; ICRA); \*Provisional financials

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

## Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

## Rating history for past three years

| Instrument                         | Current Rating (FY2024) |                          |   |                   | Chronology of Rating History for the Past 3 Years |                   |                   |                |
|------------------------------------|-------------------------|--------------------------|---|-------------------|---|-------------------|-------------------|----------------|
|                                    | Type                    | Amount Rated (Rs. crore) | Amount Outstanding as on Dec 31, 2022 (Rs. crore) | Date & Rating on  | FY2023  |                   | FY2022            | FY2021         |
|                                    |                         |                          |   | June 16, 2023     | May 25, 2022                                      | May 06, 2022      | April 19, 2021    | March 31, 2021 |
| 1 Long-term – Fund-based Term Loan | Long-term               | 30.00                    | 11.4  | [ICRA]A- (Stable) | [ICRA]A- (Stable)                                 | [ICRA]A- (Stable) | [ICRA]A- (Stable) | -              |

|   |                                       |                      |        |   |                             |                             |                   |                   |                   |
|---|---------------------------------------|----------------------|--------|---|-----------------------------|-----------------------------|-------------------|-------------------|-------------------|
| 2 | Long-term – Fund-based/ Cash Credit   | Long-term            | 68.00  | - | [ICRA]A- (Stable)           | [ICRA]A- (Stable)           | [ICRA]A- (Stable) | [ICRA]A- (Stable) | [ICRA]A- (Stable) |
| 3 | Long-term/Short-term – Non-fund Based | Long-term/Short-term | 370.00 | - | [ICRA]A- (Stable)/[ICRA]A2+ | [ICRA]A- (Stable)/[ICRA]A2+ | -                 | -                 | -                 |
| 4 | Short-term – Non-fund Based           | Short-term           | 270.00 | - | -                           | -                           | [ICRA]A2+         | [ICRA]A2+         | -                 |

### Complexity level of the rated instrument

| Instrument                            | Complexity Indicator |
|---------------------------------------|----------------------|
| Long-term – Fund-based Term Loan      | Simple               |
| Long-term – Fund-based/ Cash Credit   | Simple               |
| Long-term/Short-term – Non-fund Based | Very Simple          |

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 analysing 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 are available on ICRA's website: [Click Here](#)

**Annexure I: Instrument details**

| ISIN | Instrument Name                      | Date of Issuance / Sanction | Coupon Rate | Maturity Date | Amount Rated (Rs. crore) | Current Rating and Outlook  |
|------|--------------------------------------|-----------------------------|-------------|---------------|--------------------------|-----------------------------|
| NA   | Long-term – Fund-based TL            | Aug 5, 2016                 | NA          | Dec 5, 2025   | 30.00                    | [ICRA]A- (Stable)           |
| NA   | Long-term – Fund-based/ CC           | NA                          | NA          | NA            | 68.00                    | [ICRA]A- (Stable)           |
| NA   | Long-term/Short-term –Non-fund Based | NA                          | NA          | NA            | 370.00                   | [ICRA]A- (Stable)/[ICRA]A2+ |

Source: SGCL and ICRA

[Please click here to view details of lender-wise facilities rated by ICRA](#)

**Annexure II: List of entities considered for consolidated analysis – Not Applicable**

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