

September 16, 2024

Shree Gautam Construction Co. Ltd.: Ratings reaffirmed and assigned for enhanced amount

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term-term loan-fund based	30.00	48.58	[ICRA]A- (Stable); Reaffirmed/ Assigned for enhanced amount
Long term / short term-others- non fund based	520.00	643.00	[ICRA]A- (Stable)/[ICRA]A2+; Reaffirmed/ Assigned for enhanced amount
Long term-cash credit-fund based	73.00	100.00	[ICRA]A- (Stable); Reaffirmed /Assigned for enhanced amount
Total	623.0	791.58	

*Instrument details are provided in Annexure-I

Rationale

The ratings of Shree Gautam Construction Co. Ltd. (SGCCL) continue to derive comfort from the company's comfortable financial risk profile, driven by its healthy operating margin, low leverage and comfortable debt coverage indicators, along with interest coverage and debt service coverage ratio (DSCR) of 14.3 times and 5.6 times, respectively, in FY2024 (provisional). ICRA expects coverage metrics and profitability to remain robust going forward, with interest cover likely to remain above 7 times in the medium term.

The ratings draw comfort from the medium-term revenue visibility due to its sizeable outstanding order book of Rs. 4,387 crore as on June 30, 2024 (order book to operating income (OI) ratio of ~4.1 times of FY2024 OI), which was supported by healthy order inflows of ~Rs. 1,900 crore in FY2024 and Q1 FY2025. The company's operating profit margin, though declined over the past few years, continued to remain healthy at 18-19%, supported by the benefits derived from a higher proportion of revenues from the margin-accretive medical college building projects and economies of scale. 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 ~48% of its pending order book is in the nascent stages of execution (less than or equal to 10% of the project execution). Further, the order book is concentrated in terms of a few clients and a single geography. As on June 30, 2024, ~89% of the pending order book was from the Public Works Department (PWD), Assam, and all of the company's ongoing projects (98%) were limited to a single state – Assam. Nonetheless, ~80% of its orders are funded by the Central Government, which reduces counterparty risk.

The ratings are constrained by SGCCL's moderate working capital intensity, particularly during the peak season, due to longer bill realisation periods, retention money blockage and the seasonality of operations. Moreover, the absence of price escalation clauses in many of its building contracts (accounted for 60% of its pending order book as on June 30, 2024) exposes the company's profitability to fluctuations in raw material prices. Although the company considers the risk of price increases when bidding for projects, a sharp rise in raw material costs could adversely impact SGCCL's profitability.

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 the then 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.

The Stable outlook on SGCCL's rating reflects ICRA's opinion that the company will be able to maintain a comfortable capital structure and debt coverage metrics, supported by the realisation of timely payment from its customers.

Key rating drivers and their description

Credit strengths

Healthy order book with medium-term revenue visibility – SGCCL had an outstanding order book of Rs. ~Rs. 4,387 crore as on June 30, 2024 (translating to OB/OI ratio of ~4.1 times of FY2024 OI), which was supported by healthy order inflows of ~Rs. 1,900 crore in FY2024 and Q1 FY2025. SGCCL's ability to sustain its project execution and the receipt of timely payments would be key monitorable from the credit perspective.

Healthy profitability and cash accruals, low leverage, and comfortable debt coverage metrics – SGCCL has a healthy financial profile, marked by its healthy profitability, comfortable capital structure and coverage indicators. The company's operating profit margin, though declined over the past few years, continued to remain healthy at 18-19%, supported by the higher proportion of revenues from the margin-accretive medical college building projects and economies of scale. However, ICRA notes the absence of a price escalation clause in many of its building contracts (accounted for 60% of the company's pending order book as on June 30, 2024), exposing its profitability to any sharp movements in raw material prices. SGCCL's coverage indicators remained healthy with interest coverage and DSCR of 14.3 times and 5.6 times, respectively, in FY2024. Further, it has a conservative leverage level, supported by limited dependence on borrowings and advances. As on March 31, 2024, the TOL/TNW ratio remained comfortable at 0.5 times. In absence of any major capex and investment plans, ICRA expects coverage and leverage metrics to remain comfortable going forward as well.

Established track record of operations – SGCCL was established in 1979 and has more than four decades of experience in executing contracts in the roads / bridges and buildings segments. Over the years, the company has been undertaking building and road construction works, primarily in Assam, with PWD, Assam being a key client.

Credit challenges

Concentrated order book; moderate execution risks – SGCCL faces revenue concentration risk, with the majority of its projects (89%) coming from a single client – PWD, Assam – and 98% of its operations limited to a single geography (98%), Assam. However, the company's long track record of operations in Assam provides comfort to an extent. Further, the company faces high execution risks with ~48% of its pending order book, as on June 30, 2024, in the nascent stages of execution.

Moderate working capital intensity – The company has moderate working capital intensity, driven by extended receivables periods and retention amounts tied up in some ongoing projects. Further, in the peak season (Q3 of each year), working capital requirements are relatively higher. Moreover, the retention amount in PWD projects cannot be released until project completion, with a portion remaining blocked during the defect liability period as well.

Sector-related and other risks – SGCCL is exposed to risks associated with construction entities, including bank guarantee-related risks. However, the company's execution track record and absence of any past guarantee invocations. 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 there has been no material impact on SGCCL's financial or operational profile to date, any adverse outcome from the investigation that affects the company's financial flexibility will remain a key rating sensitivity.

Liquidity position: Adequate

The company had an unencumbered cash balance of ~Rs. 25.0 crore as on July 31, 2024, and unutilised fund-based working capital limit, which provides adequate liquidity cushion. SGCCL sparingly utilises its fund-based working capital limits. The debt repayments of ~Rs. 20 crore falling due in FY2024 can be comfortably met through its estimated cash flow from operations.

Rating sensitivities

Positive factors – The ratings may be upgraded if SGCL 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	Construction Corporate Credit Rating Methodology
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

SGCL is a Guwahati-based engineering procurement and construction (EPC) company, undertaking infrastructure projects. The company is promoted by the Singhi family and has a four-decade track record in the sector. It executes tender-based works for the construction of buildings, roads, bridges, primarily in Assam and Meghalaya, with PWD, Assam being one of its key clients.

Key financial indicators

	FY2023	FY2024*
Operating income(Rs in crore)	815.4	1029.6
PAT(Rs in crore)	107.4	129.6
OPBDIT/OI (%)	19.2%	18.5%
PAT/OI (%)	13.2%	12.6%
Total outside liabilities/Tangible net worth (times)	0.3	0.5
Total debt/OPBDIT (times)	0.4	0.9
Interest coverage (times)	19.1	14.3

Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; 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 (FY2025)				Chronology of rating history for the past 3 years					
	Type	Amount Rated (Rs. crore)	Date	Rating	FY2024		FY2023		FY2022	
					Date	Rating	Date	Rating	Date	Rating
Term Loans	Long Term	48.58	16-SEP-2024	[ICRA]A-(Stable)	16-JUN-2023	[ICRA]A-(Stable)	06-MAY-2022	[ICRA]A-(Stable)	19-APR-2021	[ICRA]A-(Stable)
			-	-	27-JUL-2023	[ICRA]A-(Stable)	25-MAY-2022	[ICRA]A-(Stable)	-	-
Non Fund Based- Others	Long Tem/ Short Term	643.00	16-SEP-2024	[ICRA]A-(Stable)/ [ICRA]A2+	16-JUN-2023	[ICRA]A-(Stable)/ [ICRA]A2+	25-MAY-2022	[ICRA]A-(Stable)/ [ICRA]A2+	-	-
			-	-	27-JUL-2023	[ICRA]A-(Stable)/ [ICRA]A2+	-	-	-	-
Cash Credit	Long Term	100.00	16-SEP-2024	[ICRA]A-(Stable)	16-JUN-2023	[ICRA]A-(Stable)	06-MAY-2022	[ICRA]A-(Stable)	19-APR-2021	[ICRA]A-(Stable)
			-	-	27-JUL-2023	[ICRA]A-(Stable)	25-MAY-2022	[ICRA]A-(Stable)	-	-
Non-fund Based	Short Term	-					06-MAY-2022	[ICRA]A2+	19-APR-2021	[ICRA]A2+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based - Term Loan	Simple
Long-term – Fund-based - Cash Credit	Simple
Long-term/Short-term – Non-fund Based – Other	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	Term Lonas	Aug 05, 2016	NA	Dec 05, 2025	48.58	[ICRA]A- (Stable)
NA	Cash Credit	NA	NA	NA	100.00	[ICRA]A- (Stable)
NA	Non-fund Based – Bank Guarantee	NA	NA	NA	643.00	[ICRA]A- (Stable)/[ICRA]A2+

Source: Company

[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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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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