

December 05, 2022

Shivalaya Construction Company Private Limited: Ratings reaffirmed and withdrawn

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Cash credit	80.00	80.00	[ICRA]A- (Stable); Reaffirmed and withdrawn
Long-term/ Short-term – Non-fund based – Bank guarantee	830.00	830.00	[ICRA]A- (Stable)/[ICRA]A2+; Reaffirmed and withdrawn
Total	910.00	910.00	

*Instrument details are provided in Annexure-I

Rationale

ICRA has reaffirmed and withdrawn the ratings assigned to the bank lines of Shivalaya Construction Company Private Limited (SCCPL). There ratings have been withdrawn at the company's request and based on the no-objection received from the banks. The rating action is in accordance with ICRA's policy on withdrawal of credit rating.

The reaffirmation of ratings for SCCPL favourably factors in the robust growth in its operating income (OI) to Rs. 1,227.7 crore in FY2021 and Rs. 1,449.7 crore in FY2022 from Rs. 867.0 crore in FY2020. The operating profitability has remained robust at around 20% over the last three years against 12-14% during FY2015-FY2019 owing to improved economies of scale, resulting in better absorption of fixed costs, lower rental expenses with addition of owned equipment. The ratings continue to draw comfort from the company's healthy financial risk profile with comfortable debt coverage indicators. The ratings derive support from the healthy revenue visibility from its order book position of Rs. 7,643 crore as on August 31, 2022, and its reputed clientele comprising Central Government entities (directly or indirectly through projects undertaken in subsidiaries) with low counterparty credit risk. This apart, the ratings draw strength from the extensive experience of the promoters in the construction sector.

The ratings are, however, constrained by the sizeable exposure towards hybrid annuity model (HAM) based projects, which besides increasing the committed equity requirement also exposes it to project implementation risks. SCCPL had undertaken eleven HAM projects, of which four projects are from Maharashtra PWD and seven are from the National Highway Authority of India (NHAI). While the Maharashtra-based HAM projects have become operational, there has been delays in the past in the receipt of semi-annual annuities in these projects, and in the interim, support was required from SCCPL. Of the seven HAM projects from NHAI, five projects have been secured in FY2022 and have recently received the appointed date, while the balance two projects are in intermediate stage of execution. SCCPL is exposed to execution risk associated with construction contracts, as ~80% of the orders are in the early stages of execution (less than 10% progress). It has sizeable equity/promoter contribution commitments (Rs. 1,115.0 crore) towards its seven NHAI HAM projects to be infused by FY2025. Of this, ~25% of the overall required equity/promoter contribution has already been infused till October 2022. The balance equity/investment requirement is expected to be met from the available liquidity, cash flows to be generated from SCCPL's core construction business, mobilisation advance and issuance of non-convertible debentures (NCD)/long-term debt. ICRA notes that to augment resources for meeting the equity commitment towards the five new NHAI HAM projects, it has plans to raise NCD/long-term debt. As per the management, they are in advance stages of raising NCD/long-term debt of Rs. 200-300 crore. The investments to be made in the HAM SPVs, will form a sizeable part of SCCPL's overall capital employed and is expected to result in an increase in its total outside liabilities. Besides, in case of any cost overrun or delays, SCCPL is likely to support these projects. Given that these investments could be blocked for a long term, until the company is able to timely complete these projects and monetise its investments, there could be asset liability mismatch. For the four projects awarded by Maharashtra PWD and two NHAI HAM projects in Jharkhand developed under SNHPL¹, SBHPL¹, SAHPL¹, SGHPL¹, HPHPL¹ and RGHPL¹, SCCPL has

extended corporate guarantees. For the five new NHAI HAM projects, the company has not extended corporate guarantee. ICRA has taken its analytical approach as full consolidation of six HAM projects where it has extended the corporate guarantee and limited consolidation for the five new NHAI HAM projects. However, ICRA draws comfort from the company's track record in the construction business and successful completion of four Maharashtra HAM projects before time and within budget. The ratings are constrained by the project and geographical concentration risks with top five projects accounting for ~80% of the order book and more than three-fourth of the pending order book is from three states. Further, its entire revenues are derived from a single segment, i.e., roads. The ratings take into account the company's exposure to sizeable contingent liabilities in the form of bank guarantees, mainly for contractual performance, mobilisation advance and security deposits. Nonetheless, ICRA draws comfort from its execution track record and absence of invocation of guarantees in the past.

The Stable outlook on the long-term rating reflects ICRA's opinion that SCCPL will continue to benefit from its favourable operational track record in the road construction segment, its reputed clientele viz. the NHAI, National Highways and Infrastructure Development Corporation (NHIDCL) and Ministry of Road Transport and Highways (MoRTH) and its healthy order book position.

Key rating drivers and their description

Credit strengths

Sizeable order book position provides revenue visibility – SCCPL has a sizeable pending order book of Rs. 7,643 crore as on August 31, 2022, which is ~5.3 times the revenues in FY2022. This provides strong medium-term revenue visibility. The current order book comprises mainly in road construction orders from the NHAI, NHIDCL, MoRTH, etc, which are all strong counterparties.

Experience of promoters in construction industry – The promoters have more than three decades of experience in the construction industry. Mr. Shripal Agarwal, the promoter and Managing Director of SCCPL, along with other promoter directors – Mr. Satish Nandal and Mr. Pradeep Nandal – has been associated with the company since its inception. Mr. Sahil Agarwal and Mr. Sumit Nandal are directors from the second generation and are involved in business for more than five years. SCCPL has been executing road and civil construction projects since 1993. Successful execution of the projects has helped it in getting large-sized orders from clients.

Comfortable financial risk profile and healthy coverage metrics – SCCPL's limited dependence on external borrowings resulted in a comfortable financial risk profile with adjusted¹ gearing of 0.92 times and adjusted TOL/TNW of 1.30 times as on March 31, 2022. The debt coverage indicators remained healthy with interest coverage of 9.4 times and DSCR of 3.4 times in FY2022. It witnessed robust revenue growth by 42% and 18% with revenue increasing to Rs. 1,227.7 crore and Rs. 1,449.7 crore in FY2021 and FY2022, respectively, from Rs. 867.0 crore in FY2020. With increased scale of operations, healthy profitability (improved economies of scale resulting in better absorption of fixed costs, lower rental expenses with addition of owned equipment) and limited dependence on external debt, its financial risk profile has remained comfortable. Most of the contracts have the provision for price variation of key raw materials such as cement and steel, which protects the profitability to an extent.

¹ SCCPL has floated eleven special purpose vehicles (SPVs) for development of projects under HAM. These SPVs are Shivalaya Nagpur Highways Pvt. Ltd. (SNHPL), Shivalaya Bhandara Highways Pvt. Ltd. (SBHPL), Shivalaya Amgaon Highways Pvt. Ltd. (SAHPL), Shivalaya Goregaon Highways Pvt. Ltd. (SGHPL), Hariharganj-Parwa Highways Private Limited (HPHPL), Rehla-Garhwa Highways Private Limited (RGHPL)

² Adjusted – Consolidation of HAM SPVs as per Annexure II

Credit challenges

Concentrated order book and execution risk – The company's order book remains exposed to segment concentration (all orders in road segment) and geographical concentration risks as ~80% of the outstanding order book is from Kerala, Jammu and Maharashtra. It faces project concentration risk as the top five projects accounted for ~80% of the order book as on August 30, 2022. SCCPL remains exposed to the execution risk associated with the contracts as ~80% of orders are in the nascent stage with less than 10% progress.

Exposure towards HAM projects – The company has undertaken eleven hybrid annuity model (HAM) projects under separate SPVs¹. For the Four projects awarded by Maharashtra PWD and two NHAI HAM projects in Jharkhand developed under SNHPL, SBHPL, SAHPL, SGHPL, HPHPL and RGHPL, SCCPL has extended corporate guarantees. For the five new NHAI HAM projects, SCCPL has not extended corporate guarantee. ICRA has taken its analytical approach as full consolidation for the seven HAM projects, wherein it has extended the corporate guarantee and limited consolidation for the five new NHAI HAM projects. SCCPL has sizeable equity/promoter contribution commitments (of Rs. 1,115.0 crore) towards its seven NHAI HAM projects during FY2022-FY2025. However, ~25% of required equity has already been infused in these seven HAM SPVs till October 2022. The balance equity/investment requirement is expected to be met from the available liquidity, cash flows to be generated from SCCPL's core construction business, mobilisation advance and issuance of non-convertible debentures (NCD)/long-term debt. The investments to be made in the HAM SPVs, will form a sizeable part of SCCPL's overall capital employed and is likely to result in an increase in its total outside liabilities. Besides, in case of any cost overrun or delays, SCCPL is anticipated to support these projects. Given that these investments could be blocked for a long term, until the company is able to timely complete these projects and monetise its investments, there could be asset liability mismatch. However, ICRA draws comfort from its track record in the construction business and successful completion of four Maharashtra HAM projects before time and within budget. For the Maharashtra HAM projects, timely receipt of annuities remain a risk as there have been instances of delays in payments from Maharashtra PWD in the past. The delay in receipt of annuities for these four HAM projects would entail support from SCCPL. However, it is not likely to have a material adverse impact on the company's credit profile, given the relatively lower quantum of near-term obligations in these projects. Further, comfort is drawn from presence of debt service reserve (DSR) in these SPVs.

Competitive nature of industry and sizeable non-fund based exposure – SCCPL is exposed to cyclicity inherent in the construction industry and intense competition in the tender-based contract award system, resulting in volatility in revenues and pressure on margins. However, its long presence and established relationship with the clients provide comfort. It is exposed to sizeable contingent liabilities in the form of bank guarantees (~Rs. 555 crore as on August 31, 2022), mainly towards performance guarantee, mobilisation advance and security deposits. Nonetheless, ICRA draws comfort from SCCPL's healthy execution track record and no invocation of guarantees in the past.

Liquidity position: Adequate

The cash flow from operations are expected to be adequate to meet its debt servicing obligations and the near-term equity commitment towards the under-construction HAM projects. This apart, SCCPL has Rs. 113.3 crore of unencumbered fixed deposits and cash balance as on March 31, 2022. The utilisation of its fund-based working capital bank limits of Rs. 147.5 crore has remained moderate at ~30% on an average over the period of last 12 months as on August 30, 2022.

Rating sensitivities

Positive factors – Not captured as the rating has been withdrawn.

Negative factors – Not captured as the rating has been withdrawn.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Construction Entities Rating Approach - Consolidation Policy on withdrawal of credit ratings
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has consolidated financials of SCCPL with its subsidiaries (HAM project SPVs). Refer Annexure-II. For the first six SPVs SCCPL had extended corporate guarantee, hence ICRA has done full consolidation. For the remaining five SPVs, ICRA had done limited consolidation.

About the company

SCCPL was initially established as a partnership firm in 1993, named Shivalaya Construction Company. It was later reconstituted as a private limited company and registered in December 1997. The company is based out of Rohtak, Haryana and is promoted by Mr. Shripal Aggarwal, Mr. Satish Nandal and Mr. Pradeep Nandal, and its entire shareholding is between them and their family members. It is involved in the construction, upgrade and maintenance of roads, including national highways, state highways and rural roads. It undertakes construction of buildings, minor bridges and waterways. It has been in this line of business for more than 25 years and has undertaken and completed many construction projects in North, Central and East India. SCCPL is registered as a Class-1 Government contractor with the Governments of Haryana, Rajasthan, J&K, Delhi, Jharkhand, Chhattisgarh, Punjab and Madhya Pradesh.

Key financial indicators (audited)

SCCPL Standalone	FY2021	FY2022
Operating income	1227.7	1449.7
PAT	154.8	189.9
OPBDIT/OI	20.7%	19.9%
PAT/OI	12.6%	13.1%
Total outside liabilities/Tangible net worth (times)	0.81	0.92
Total debt/OPBDIT (times)	0.57	0.78
Interest coverage (times)	8.5	9.4

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2023)			Chronology of rating history for the past 3 years						
		Amount rated (Rs. crore)	Amount outstanding as on Sept 30, 2021 (Rs. crore)	Date & rating in FY2023		Date & rating in FY2022		Date & rating in FY2021		Date & rating in FY2020	
				Dec 05, 2022	Sep 29, 2022	Sep 10, 2021	Mar 29, 2021	Aug 7, 2020	Sep 27, 2019	Apr 5, 2019	
1	Fund-based – Cash credit	80.00	-	[ICRA]A-(Stable); reaffirmed and withdrawn	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	-	-	-
2	Non-fund based – Bank guarantee	830.00	-	[ICRA]A-(Stable)/[ICRA]A2+; reaffirmed and withdrawn	[ICRA]A-(Stable)/[ICRA]A2+	[ICRA]A-(Stable)/[ICRA]A2+	[ICRA]A-(Stable)/[ICRA]A2+	[ICRA]A-(Stable)/[ICRA]A2+	-	-	-
3	NCD	-	-	[ICRA]A-(Stable); Withdrawn	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	-	-	-
4	Fund-based – Cash credit	-	-	-	-	-	-	[ICRA]BBB+(Stable)	[ICRA]BBB+(Stable)	[ICRA]A-(Negative)	
5	Non-fund based – Bank guarantee	-	-	-	-	-	-	[ICRA]A2; Reaffirmed & Withdrawn	[ICRA]A2	[ICRA]A2+	
6	Commercial paper	-	-	-	-	-	-	-	[ICRA]A2; Withdrawn	[ICRA]A2+	

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Cash credit	Simple
Long-term/ Short-term – Non-fund-based – Bank guarantee	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	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based – Cash credit	-	-	-	80.00	[ICRA]A-(Stable); reaffirmed and withdrawn
NA	Non-fund based – Bank guarantee	-	-	-	830.00	[ICRA]A-(Stable)/ [ICRA]A2+; reaffirmed and withdrawn

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	SCCPL Ownership	Consolidation Approach
Shivalaya Nagpur Highways Pvt. Ltd.	100.00%	Full Consolidation
Shivalaya Bhandara Highways Pvt. Ltd.	100.00%	Full Consolidation
Shivalaya Amagon Highways Pvt. Ltd.	100.00%	Full Consolidation
Shivalaya Goregaon Highways Pvt. Ltd.	100.00%	Full Consolidation
Hariharganj-Parwa Highways Private Limited	100.00%	Full Consolidation
Rehla-Garhwa Highways Private Limited	100.00%	Full Consolidation
Kappirikkad Highways Private Limited	100.00%	Limited Consolidation
Kodungaller Highways Private Limited	100.00%	Limited Consolidation
VME Highways Private Limited	100.00%	Limited Consolidation
Vijaypur-Kunjwani Highways Private Limited	100.00%	Limited Consolidation
Kollam Highways Private Limited	100.00%	Limited Consolidation

Source: SCCPL, ICRA

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