

October 30, 2024

Som Projects Pvt. Ltd.: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based/ Cash credit	39.30	39.30	[ICRA]BBB (Stable); reaffirmed
Long-term – Fund-based/ Term loan	3.60	3.60	[ICRA]BBB (Stable); reaffirmed
Short term – Non-fund based/ Bank guarantee	182.10	260.95	[ICRA]A3+; reaffirmed/assigned
Long-term/ Short-term – Unallocated	-	46.15	[ICRA]BBB (Stable)/ [ICRA]A3+; assigned
Total	225.00	350.00	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation for Som Projects Pvt. Ltd. (SPPL) favourably factors in its comfortable order book position of Rs. 1,644.30 crore as on August 31, 2024 (translates to ~3.7 times of the operating income (OI) of FY2024) providing medium-term revenue visibility and its adequate leverage (TOL/TNW of 1.1 times) and coverage metrics (interest cover ratio of 4.6 times) as on March 31, 2024, which are expected to sustain over the medium term. The company reported a 31% YoY growth in revenue in FY2024 and has achieved revenue Rs. 250 crore in H1 FY2025 (provisional data) and is expected to close the year with revenue growth in the range of over 15%, supported by ramp-up in execution of the current order book. SPPL's operating profitability margins (OPM) improved to 11.1% in FY2024 (+190 bps YoY) and are likely to remain range-bound (at around 9-10%), which along with increased scale will support the cash accruals. This apart, the ratings draw comfort from the extensive experience of the promoters in the construction sector and the company's reputed clientele, comprising public sector entities, which mitigates the counterparty credit risk to an extent.

The ratings, however, remain constrained by the moderate scale of operations (despite the YoY growth) and high debt repayment obligations on account of incremental borrowing related to order inflow in FY2024, which is expected to keep the debt service coverage ratio (DSCR) subdued in FY2025 (DSCR moderated to 1.2 times as on March 31, 2024 from 2.0 times as on March 31, 2023) and improve from FY2026 onwards. The ratings factor in the execution risk associated with the current order book, with ~66% of orders in the nascent stages of execution (less than 20% progress). Nevertheless, the company's successful track record in executing such orders, for same clients, provide comfort. SPPL had been extending significant loans and advances to Group companies/related parties in the past (outstanding ~Rs. 32 crore as on March 31, 2024) to support ramp-up of these businesses. However, the company now anticipates recovery of these loans/advances over FY2025 and FY2026. Any divergence from this guidance by way of additional outgo or significant delay in recovery of these advances, may impact SPPL's liquidity and would remain crucial from the credit perspective.

The ratings factor in the cyclical nature inherent in the construction industry and intense competition in the tender-based contract award system, which could put pressure on its ability to secure new contracts, while maintaining the profitability. The ratings note the company's exposure to sizeable contingent liabilities, in the form of bank guarantees (BGs), mainly for contractual performance, retention money, mobilisation advance and security deposits. Nonetheless, ICRA draws comfort from SPPL's execution track record and absence of invocation of guarantees in the past.

The Stable outlook on the long-term rating reflects ICRA's expectation that SPPL will sustain its revenue growth with a steady profitability margin in FY2025, despite a marginal moderation in DSCR, its incremental working capital requirements and capex will be funded in a manner that it is able to maintain a leverage profile, commensurate with the rating levels.

Key rating drivers and their description

Credit strengths

Healthy order book position providing medium-term revenue visibility – SPPL has a sizeable pending order book of Rs. 1,644.30 crore as on August 31, 2024, which is ~3.7 times of its OI in FY2024 and provides healthy medium-term revenue visibility. The current order book comprises orders from the public sector entities like the Military Engineering Services (MES), Delhi Development Authority (DDA), Nuclear Power Corporation of India Limited (NPCIL), Public Works Department (PWD) of various states, Bhabha Atomic Research Centre (BARC), etc, which limits the counterparty credit risk.

Adequate capitalisation and leverage metrics – SPPL's dependence on external borrowings has remained limited, despite an increase in scale over the past two years, with total debt of Rs. 97.8 crore outstanding as on March 31, 2024. Given the healthy accruals, the net worth has improved to Rs. 134.1 crore as on March 31, 2024 (Vs. Rs. 110.4 crore and Rs. 94.9 crore as on March 31, 2023, and March 31, 2022, respectively) resulting in adequate TOL/TNW of 1.1 times as on March 31, 2024 (Vs. 1.3 times as on March 31, 2023). With steady accretion to reserves, expected recovery in loans/advances from related parties and external debt repayment, the leverage indicators are likely to improve in the medium term. ICRA, however, notes that the company has sizeable repayment obligations in FY2025, which will constrain its DSCR. Nonetheless, the same is expected to start improving thereafter.

Experience of promoters in construction industry – With over three decades of experience in the construction industry, SPPL's promoters have established relationships with clients such as MES, PWD, HITES, DDA, BARC, and others. The company has experience in executing projects in various segments such as residential, commercial, industrial, educational, hospital and others. Successful execution of the projects has helped it in getting repeat and/or larger-sized orders from these clients.

Credit challenges

Moderate scale of operations and execution risks – The company's scale of operations remains moderate, despite a 31% YoY growth in FY2024 to Rs. 455.8 crore, driven by healthy order addition and execution. While the current order book remains strong, the ability to consistently garner new orders would remain crucial from the credit perspective. The company's order book remains exposed to segment concentration risk with majority orders in the building/civil construction. Further, it remains exposed to execution risks associated with the contracts, as ~66% of orders are in the nascent stage with less than 20% progress, including the three largest projects constituting ~46% of the pending order book, which were yet to commence operations as on August 31, 2024. However, ICRA draws comfort from SPPL's track record in the construction business and successful completion of projects within time and budget.

Sizeable exposure towards loans/advances to Group companies/related parties – The company had outstanding loans and advances to related parties aggregating ~Rs. 32 crore as on March 31, 2024. These were advanced for acquisition of a land, material or towards contract works. SPPL had also extended unsecured loans of Rs. 7-8 crore, repayable over a period of five years to its 100% subsidiary Som Projects UK Limited. The company does not plan to extend further advances to its subsidiaries/related parties. It expects to recover these advances, of Rs. 15-20 crore in FY2025 and the balance in FY2026, which will remain critical to support the liquidity, given the increasing scale of operations.

Competitive nature of industry and sizeable non-fund based exposure – SPPL is exposed to the 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. Most of the contracts have a provision for price variation of key raw materials such as cement and steel, which protects the profitability to an extent. It is exposed to sizeable contingent liabilities in the form of BGs (~Rs. 240 crore as on August 31, 2024), mainly towards performance guarantee, retention money, mobilisation advance and security deposits. Nonetheless, ICRA draws comfort from SPPL's healthy execution track record and no invocation of guarantees in the past.

Liquidity position: Adequate

SPPL's liquidity is expected to remain adequate, with cash flow from operations being adequate to match the debt service obligations (~Rs. 32 crore in FY2025), further supported by availability of free cash and bank balances (Rs. 3.15 crore as on March 31, 2024) and unutilised fund-based limits of ~Rs. 10 crore (as on August 31, 2024 with an average utilisation of 81% in trailing 13-months). Further, the expected recovery of related party advances could support the liquidity profile. While SPPL enjoys flexibility through the provision to avail mobilisation advances and realise the retention money against BGs, timely enhancement in BG lines will be crucial, given the limited cushion available (utilisation at 92% as on August 31, 2024).

Rating sensitivities

Positive factors – The ratings may be upgraded if there is a significant improvement in its scale of operations, while maintaining the profitability, resulting in improvement in liquidity and coverage metrics.

Negative factors – Significant delays in project execution impacting scale and profitability or extension of significant loans/advances to group companies/related parties or increase in working capital intensity, which adversely affects the liquidity and coverage metrics, could put pressure on the ratings. Specific credit metrics that could lead to a rating downgrade includes DSCR below 1.3 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Construction
Parent/Group support	Not applicable
Consolidation/Standalone	Consolidated

About the company

Incorporated in 2005, Som Projects Pvt. Ltd. (SPPL) is promoted by Mr. Som Prakash Garg, and Mr. Sanjay Goyal. The company began its operations primarily by undertaking tenders floated by Ludhiana Cantonment, Military Engineering Services (MES). Thereafter, the company started bidding for a number of projects by MES across Punjab and gradually to other parts of the country. Since then, it has executed development projects such as schools, hospitals, roads, residential flats, office buildings and bridges. At present, SPPL is enlisted with various Central and state government departments.

Key financial indicators

	FY2023	FY2024
Operating income	347.7	455.8
PAT	17.2	27.7
OPBDIT/OI (%)	9.2%	11.1%
PAT/OI (%)	4.9%	6.1%
Total outside liabilities/Tangible net worth (times)	1.3	1.1
Total debt/OPBDIT (times)	2.5	1.9
Interest coverage (times)	4.4	4.6

Source: Company, ICRA Research; All ratios are as per ICRA's calculations

Status of non-cooperation with previous CRA:

CRA Name	Status	Date of last Rationale
CRISIL	CRISIL B (Stable)/A4 (ISSUER NOTCOOPERATING)	January 18, 2024

Any other information: Not Applicable

Rating history for past three years

Instrument	Type	Current (FY2025)		Chronology of rating history for the past 3 years							
		FY2025		FY2025		FY2024		FY2023		FY2022	
		Amount Rated (Rs. crore)	30-OCT-2024	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Long-term / short-term – Unallocated	Long Term/ Short Term	46.15	[ICRA]BBB (Stable)/ [ICRA]A3+	-	-	27-MAR-2024	[ICRA]BBB (Stable)/[ICRA]A3 + ISSUER NOT COOPERATING	02-DEC-2022	[ICRA]BBB (Stable)/ [ICRA]A3+	29-SEP-2021	[ICRA]BBB (Stable)/ [ICRA]A3+
Short-term – Bank guarantee – Non-fund based	Short Term	260.95	[ICRA]A3+	24-OCT-2024	[ICRA]A3+	27-MAR-2024	[ICRA]A3+ ISSUER NOT COOPERATING	02-DEC-2022	[ICRA]A3+	29-SEP-2021	[ICRA]A3+
Long-term – Cash credit – Fund-based	Long Term	39.30	[ICRA]BBB (Stable)	24-OCT-2024	[ICRA]BBB (Stable)	27-MAR-2024	[ICRA]BBB (Stable) ISSUER NOT COOPERATING	02-DEC-2022	[ICRA]BBB (Stable)	29-SEP-2021	[ICRA]BBB (Stable)
Long-term – Term loan – fund based	Long Term	3.60	[ICRA]BBB (Stable)	24-OCT-2024	[ICRA]BBB (Stable)	27-MAR-2024	[ICRA]BBB (Stable) ISSUER NOT COOPERATING	02-DEC-2022	[ICRA]BBB (Stable)	29-SEP-2021	[ICRA]BBB (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based/ Cash credit	Simple
Long-term – Fund-based/ Term loan	Simple
Short term – Non-fund based/ Bank guarantee	Very Simple
Long-term/ Short-term – Unallocated	Not Applicable

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	Fund-based –Cash credit	-	-	-	39.30	[ICRA]BBB (Stable)
NA	Non-fund based – Bank guarantee	-	-	-	260.95	[ICRA]A3+
NA	Term loan	March 2021	-	March 2026	3.60	[ICRA]BBB (Stable)
NA	Unallocated	-	-	-	46.15	[ICRA]BBB (Stable)/ [ICRA]A3+

Source: Company

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

Annexure II: List of entities considered for consolidated analysis

Company Name	SPPL Ownership	Consolidation Approach
Som Projects UK Limited	100.0%	Full consolidation
Som VCL JV	67.0%	Full consolidation

Source: Company

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