

March 08, 2017

Sharda Construction and Corporation Private Limited

Instruments*	Amount Rated (Rs. crore)	Rating Action
Term Loan	74.00	[ICRA]BBB (Stable); Assigned
Long term: Fund based	33.00	[ICRA]BBB (Stable); Reaffirmed
Long term: Non Fund Based	100.00 (enhanced from 55.00)	[ICRA]A3+; Reaffirmed
Short term: Fund based	10.00	[ICRA]A3+; Reaffirmed
Short term: Non Fund based	1.00	[ICRA]A3+; Assigned

**Instrument details are provided in Annexure-1*

Rating Action

ICRA has reaffirmed its long-term rating of [ICRA]BBB (pronounced ICRA triple B) on the Rs.207 crore (enhanced from Rs. 88.00 crore) bank facilities and short-term rating of [ICRA]A3+ (pronounced ICRA A three plus) on the Rs. 11.00 crore (enhanced from 10.00 crore) bank facilities of Sharda Construction and Corporation Private Limited (“SCCPL” or “the company”). The outlook on the long-term rating is ‘Stable’

Rationale

The reaffirmation of ratings continues to factor in the long standing experience and technical expertise of the promoters in civil construction of irrigation projects as well as company’s Class 1A registration with Government of Maharashtra and Karnataka which enables it to bid and execute government contracts. The ratings also factor in the healthy order book position which provides revenue visibility in medium term, aided by company’s foray into solar power generation, wherein the company has long term Power Purchase Agreement (PPA) in place. The ratings also factor in the steady improvement in operating margin largely aided by the increase in share of revenue from higher margin solar power plant operation, which has been operating at healthy PLF levels.

The ratings are, however, constrained by geographic concentration risk; given majority of projects in hand pertain to Nanded & Latur region, inherent risk of timely completion of projects within stipulated time and costs and the competitive pressures from other established players in the civil industry. ICRA also notes that PLF levels and collection efficiency in the solar projects remain critical from the cash flow perspective for SCCPL, wherein, in one of the projects the company has been facing some issues related to delayed payments in the recent past.

Going forward, the company’s ability to ensure timeliness of recovery in solar projects, along with healthy Plant load factor (PLF) levels, coupled with ability to scale up and timely execution of its civil construction orders would remain a key rating sensitivity.

Key rating drivers

Credit Strengths

- Long standing experience and technical expertise of the promoters in civil construction of irrigation projects; Class 1 registration with Government of Maharashtra and Karnataka supports capability to bid and execute government contracts;
- Healthy order book position which provides a near term revenue (2.31x FY2016 revenues) visibility to the company;
- Revenue growth aided by income from Solar power generation, with long term Power Purchase Agreement (PPA) in place
- Steady improvement in operating margin largely aided by the increase in share of revenue from higher margin solar power plant operation

Credit Weakness

- Majority of projects executed in the past and orders in hand pertain to Nanded & Latur region which exposes the company to geographic concentration;
- Project execution risks associated with most of the projects & timely execution of these projects remains critical;
- High degree of competition in the construction industry
- Delay in collection witnessed for one of its solar project, reflecting concerns on timeliness of realization of receivables

Description of key rating drivers highlighted above:

The company specializes in construction of dams, barrages, road over bridges, underground drainage, spillways, masonry/concrete dams, residential & commercial buildings, aqueducts & infrastructural work for government and public enterprises. Due to the technical expertise coupled with years of experience the company has built strong project execution capabilities. This has helped the company to establish relationships with most of its clients on the basis of quality work and has substantial amount of repeat orders from clients. The major raw materials required for the project are cement, steel, stone from local suppliers. SCCPL procures labour on contract basis for all the projects undertaken from locations near to site area. The company uses its own machinery for heavy construction as using leased machinery is not allowed as per the most of the contracts

The company has an unexecuted order book of Rs. 719.05 crore as of December 31, 2016 (Rs. 310.39 crore in FY 2015) which is 2.31 times (1.05 times during last rating exercise) the revenues of FY2016. This provides a short to medium term revenue visibility for the company. SCCPL has been aggressive bidding for orders resulting in addition of approximately 13 orders in 9MFY2017 amounting to Rs. 322.68 crore. One of the major projects includes construction of Bijapur Main Canal which has two agreements collectively valuing of Rs. 99.12 crore. Most of the projects undertaken by SCCPL include construction of dams, bridges and barrages for which the average completion time ranges from 48 to 60 months. However, for smaller projects like construction of roads and pavements the average completion is 15-20 months.

During FY 2015, SCCPL also ventured into setting up solar power plants. The solar plants having capacity of 10MW and 7MW have started power generation from June-2015. The 4MW power project situated in Karnataka commissioned in April-2016. SCCPL had won an allotment of power plant 1 (10MW) in Maharashtra in the DCR category of Jawaharlal Nehru National Solar Mission's Phase 2 and power plant 2 (7MW) project in Karnataka by Karnataka Renewable Energy Development Limited



(KREDL). The solar power project set up by SSCPL is located on the 5.0-5.5 kWh/sq. meter irradiance zone. The 10MW project has been functioning at 18% PLF, 7MW project produced at 17% PLF level which has remained stable in 10MFY2017. The 4MW project, which has been functioning at 15% PLF level in 10M FY2017 is marginally lower due to inclusion of monsoon period in the PLF calculation months. As per the terms of the contract, SCCPL bills the client each month based on the amount of units consumed. The due date of the bill is approximately 2 months after the generation of bill. The collection ratio for 10MW project and 4MW project has been consistent at about 99%, however, for 7MW project SCCPL has not received the payment for Oct-Dec 2016 which amounts to Rs. 2.01 crore citing lack of funds with the electricity supply company.

Recent Results: The company has recorded an operating income of Rs.312.20 crore and profit after tax of Rs. 55.65 crore in FY2016 as compared to an operating income of Rs. 294.86 crore and profit after tax of Rs. 25.82 crore in FY2015. The company has recorded an operating income of Rs.290.93 on a provisional basis during 9MFY2017

Analytical approach: To arrive at the ratings ICRA has taken into account the standalone financials of the company along with key operational developments in the recent past. The company operates as a standalone entity and doesn't have any subsidiary in place.

Links to applicable Criteria

Corporate Credit Ratings: A Note on Methodology

About the Company:

Sharda Construction and Corporation Private Limited (SCCPL) was constituted to undertake civil construction and related business in 1994 by Mr. Baliram Morge as a partnership firm which was subsequently converted into a private limited company in April 2009. Currently, the operations of the company are managed by Mr. G.B. Morge who has an experience of over a decade in the civil construction industry. SCCPL is primarily engaged in civil construction of sewage canals, dams, tunnels, barrages, roads etc. for government departments in Nanded & Latur region of Maharashtra. Apart from civil construction, the company has also set-up three solar plants of 10MW, 7MW and 4MW respectively in Latur & Vidarbha region.

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

Any other information: Not Applicable.

Rating History for last three years:
Table: Rating History

S. No.	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. Crores)	Month - year & rating March 2017	Month - year & Rating in FY2016	Month - year & Rating in FY2015	Month - year & Rating in FY2013
1	Term Loan	Long Term	74.00	[ICRA]BBB (Stable)	-	-	-
2	Fund based – CC	Long Term	33.00	[ICRA]BBB (Stable)	[ICRA]BBB(Stable)	-	-
3	Non fund based – Letter of Guarantee	Long Term	100.00	[ICRA]BBB (Stable)	[ICRA]BBB(Stable)	-	-
4	Fund based – SOD (BD)	Short Term	10.00	[ICRA]A3+	[ICRA]A3+		
5	Non Fund based – Import Letter of Credit	Short Term	1.00	[ICRA]A3+	-	-	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

**Annexure-1
Details of Instruments**

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Term Loan	FY2014	11.40%	FY2032	74.00	[ICRA]BBB(Stable)
Fund based - cash credit	-	-	-	33.00	[ICRA]BBB(Stable)
Non-fund based – Letter of Guarantee	-	-	-	100.00	[ICRA]BBB(Stable)
Fund based – SOD (BD)				10.00	[ICRA]A3+
Non Fund based – Import Letter of Credit	-	-	-	1.00	[ICRA]A3+

Source: ALL

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