

June 22, 2017

## Santosh Kumar Sharma

### Summary of rated instruments

Instrument*	Rated Amount (in crore)	Rating Action
Fund-based Limits	10.00	[ICRA]BB (Stable), assigned
Non-fund Based Limits	15.00	[ICRA] BB (Stable), assigned
<b>Total</b>	<b>25.00</b>	

\*Instrument details are provided in Annexure-1

### Rating action

ICRA has assigned its long-term rating of [ICRA] BB (pronounced ICRA double B) on the Rs. 25.00-crore fund-based limit and non-fund based limit of Santosh Kumar Sharma. The outlook on the long-term rating is Stable.

### Rationale

ICRA's assigned rating favourably factors in the extensive experience of the proprietor, Mr. Santosh Kumar Sharma, in the road construction industry and the firm's established client relationships. The rating also reflects SKS' healthy order book movement and pace of execution over the last five years. This apart, the rating derives comfort from the firm's healthy debt-coverage metrics and liquidity profile, supported by a moderate working capital cycle.

The rating, however, is constrained by the concentration of SKS' order book across few clients, regions and orders. Further, the short tenor of orders limits the firm's revenue visibility. The rating also takes into account the stiff competition in the industry, which along with raw-material price variations and dependence on sub contracting, limits SKS' operating profitability. The rating also remains constrained by the risk associated with the firm's proprietorship constitution, which involves withdrawal of capital, dissolution of firm etc.

Going forward, SKS' ability to sustain growth as well as maintain profitability margins will be the key rating sensitivities. Further, its ability to raise adequate funding for the aforesaid purposes will be closely monitored.

### Key rating drivers

### Credit strengths

- More-than-three-decade long experience of the promoter in the business; the firm is an approved Class A contractor for various government departments
- Healthy growth over the last three years at moderate net profitability levels
- Healthy debt coverage metrics and liquidity profile

**Credit challenges**

- Operations remain restricted to Agra and nearby regions like Mathura, Hathras and Firozabad, mainly the public welfare departments; current order book confined to few orders
- Short tenor contracts lead to modest order book levels at FY2017 end
- Highly competitive nature of the industry with low entry barriers
- Risk associated with the firm proprietorship constitution, such as withdrawal of capital, dissolution of firm etc.

**Description of key rating drivers**

SKS has a more-than-two-decade long track record of operation in the construction industry and is mainly focused on executing orders for government clients. This, along with the established relationship with key clients, has resulted in steady order renewals. The operations of the firm are mostly confined to Agra, Mathura, Firozabad and Hathras. SKS had an order book of Rs. 82.11 crore as on May 31, 2017, which provides revenue visibility for the short term as most of its orders are short tenor in nature. About 66% of SKS's current order book is from the top two orders, leading to revenue concentration. It achieved a CAGR of 100% during FY2013-FY2017, backed by the growth in order book and healthy execution pace. Since a large part of the work is labour oriented and sub contracted, SKS' dependence on debt remains modest and leads in healthy debt-coverage metrics. Further, the firm utilises its healthy cash balances for overdraft and bank guarantee limits. However, its ability to raise adequate limits to fund its planned growth will be a key rating factor. SKS' working capital cycle has remained modest, mainly owing to timely execution of orders and regular payments from its clients.

**Analytical approach**

While assigning the ratings, ICRA has applied rating methodologies as indicated below.

**Links to applicable criteria**

<https://www.icra.in/Rating/ShowMethodologyReport/?id=475&Title=Construction%20Entities&Report=Construction,%20Rating%20Methodology,%20March%202017.pdf>

**About the company**

SKS is a proprietorship firm of Mr. Santosh Kumar Sharma that works as a class A contractor for the development of infrastructure projects, including roads, bridges, national highways etc. The company primarily works on government projects and its operations are limited to Agra, Mathura, Firozabad and Hathras.

The firm recorded a net profit of Rs. 6.51 crore on an operating income of Rs103.63 crore as on March 31, 2016. Also, as per the provisional numbers in FY2017, the firm recorded an operating income of Rs 200.21 crore.

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

### Rating history for the last three years

Table

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years	
		Type	Rated amount (Rs. Crores)	Month-year & Rating	Month- year & Rating in FY2017	Month- year & Rating in FY2016
				<b>June 2017</b>	<b>NA</b>	<b>NA</b>
1	Fund Based	Long Term	10.00	[ICRA]BB(Stable)	NA	NA
2.	Non-fund Based	Long Term	15.00	[ICRA]BB(Stable)	NA	NA

### 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](http://www.icra.in)

**Annexure-1**  
**Details of Instrument**

<b>Name of the instrument</b>	<b>Date of issuance</b>	<b>Coupon rate</b>	<b>Maturity Date</b>	<b>Size of the issue (Rs. Cr)</b>	<b>Current Rating and Outlook</b>
Cash Credit	-	-	-	10.00	[ICRA]BB (Stable)
Bank Guarantee	-	-	-	15.00	[ICRA]BB (Stable)



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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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