

## Shivalaya Construction Co. Pvt. Ltd.

July 24, 2018

### Summary of rated instruments

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Fund-based - Cash Credits	45.00	[ICRA]A- (Stable); Assigned
Non-fund Based Facilities	400.00	[ICRA]A2+; Assigned
Commercial Paper	5.00	[ICRA]A2+; Assigned
<b>Total</b>	<b>450.00</b>	

\*Instrument details are provided in Annexure-1

### Rating action

ICRA has assigned the long-term rating of [ICRA]A- (pronounced ICRA A minus) for the Rs. 45-crore<sup>1</sup> fund-based facilities and the short-term rating of [ICRA]A2+ (pronounced ICRA A two plus) for the Rs. 400-crore non-fund based facilities of Shivalaya Construction Co. Pvt. Ltd (SCPL)<sup>2</sup>. ICRA has also assigned the short-term rating of [ICRA]A2+ for Rs. 5-crore Commercial Paper of SCPL. The outlook on the long-term rating is Stable.

### Rationale

The assigned rating takes into account SCPL's established track record in the construction industry, its experienced promoters and substantial orders in hand as on June 30, 2018. ICRA also factors in SCPL's reputed and diversified client portfolio, mainly comprising state and Central Government agencies. This apart, ICRA take note that with the completion of the previous projects, the company's bidding eligibility has increased. The company also has sufficient unutilised non-fund based limits to bid for the new projects. Moreover, the rating positively factors in SCPL's healthy net-worth position and strong debt coverage indicators as on March 31, 2018.

ICRA's ratings are constrained by the intensely competitive nature of industry as well as SCPL's high execution risk as more than 80% of its order book is at nascent stage of execution. Since SCPL expects healthy order inflow in the near-to-medium term, its fund-based limit requirements as well as cash margin required for securing bank guarantees would increase significantly. However, this risk is partly mitigated by the maturity of some the performance guarantees in the current year (which were submitted for the projects completed in FY2016 and FY2017) and regular equity infusions by the promoters in the past few years.

Going forward, SCPL's ability to execute the current order book as per schedule as well as maintain profitability and efficient working capital management will be the key rating sensitivities.

### Outlook: Stable

ICRA believes that SCPL will continue to benefit from the extensive experience of its promoters, healthy order book position and established track record in the road construction industry. The outlook may be revised to Positive if there is a substantial increase in the company's scale of operations backed by timely execution of the current order book, cash accruals and liquidity position. The outlook may be revised to Negative if cash accruals or revenues are lower than expected, there is any major unplanned capital expenditure, or if a stretch in the working capital cycle weakens liquidity.

<sup>1</sup> 100 lakh = 1 crore = 10 million

<sup>2</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

## Key rating drivers

### Credit strengths

**Extensive experience of promoters and established track record in construction industry** - The promoters have more than three decades of experience in the construction industry. Mr. Shripal Agarwal, promoter and managing director of SCPL, along with other promoter directors – Mr. Satish Nandal and Mr. Pradeep Nandal – have been associated with the company since its inception. SCPL has been executing road and civil construction projects since 1993.

**Reputed clientele includes state and Central Government agencies** - The company has been executing projects for reputed clients for a long time. Its clientele comprises public sector entities like the Indian Railways, National Highway Authority of India (NHAI), National Highway Infrastructure Development Corporation (NHIDC), Ministry of Road Transport and Highway (MORTH), Ministry of Engineering Series (MeS), and various state public work departments (PWDs). The company is present in 10 states – Jharkhand, Rajasthan, Madhya Pradesh, Uttarakhand, Nagaland, Manipur, Delhi, Chhattisgarh, Maharashtra and Punjab.

**Healthy revenue visibility for medium term** - SCPL's strong order book of Rs. 1,872 crore as on June 30, 2018, is diversified across geographies and covers 18 projects. The company has received a contract worth over Rs. 200 crore during FY2018 and the current fiscal, with its growing bidding capability leading to good revenue visibility in the medium term. Moreover, SCPL has demonstrated a healthy pace of execution over the last two years leading to an increase in its operating income (OI) to Rs. 465 crore in FY2017 and Rs. 539 crore in FY2018.

**Low cash conversion cycle and adequate unutilised non-fund based limits** - SCPL had a low cash conversion cycle of 28 days in FY2018. The company demonstrated steady receivable realisation due to good payment terms from the clients, which are reputed Government agencies. This apart, the ageing of the receivables is less than six months. Moreover, inventory and creditor levels were modest at 8 days and 24 days, respectively in FY2018. The company now has sufficient cushion available in non-fund based limits to bid for new orders. In the past, the company also demonstrated the ability to get regular limit enhancements.

### Credit challenges

**Significant portion of order book in early stages** - A large part of SCPL's order book is in the nascent stage, which makes its revenue vulnerable for the near term. This is because execution is yet to commence in some of the projects awarded in the recent past. More than 80% of total orders either are in early states of construction or are yet to commence work. As is inherent in the construction industry, the company remains prone to client-side delays related to approvals, site availability etc. However, ICRA derives comfort from the company's demonstrated execution within timelines in the past.

**Additional fund to support growing order book and capital expenditure** - Given the healthy pace of order bidding and the expected speedy execution of the outstanding orders, SCPL's funding requirements remain significant. SCPL would require cash margin to take additional bank guarantee to bid for new projects or performance guarantee for existing projects. This apart, the company would be making significant investment in construction equipment for the newly-awarded contracts. The company has been following the mix of capital investment in construction equipment or taking on rental basis in the recent past. This will ease out some pressure on the fund-based requirement for the company.

**Intensely competitive nature of industry** - The construction industry is intensely competitive with the presence of a large number of organised players, which impacts pricing power and profitability. These projects typically have two to three years of completion time, and hence factors like volatility in the prices of cement, steel etc. can have a significant impact on company's profitability.

**Analytical approach:** For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

**Links to applicable criteria:**

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Construction Companies](#)

## About the company

SCPL was initially established as a partnership firm in 1993 by the name of Shivalaya Construction Company. It was later reconstituted to private limited company and registered in December 1997. The company is involved in the construction, upgrade and maintenance of roads, including state highways and rural roads. Also, the company undertakes construction of buildings, minor bridges and waterways. The company 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. SCPL is promoted by Mr. Shripal Aggarwal, Mr. Satish Nandal and Mr Pradeep Nanda, the entire shareholding of the company is between them and their family members. The company is registered as a Class 1 Government contractor with the Governments of Haryana, Rajasthan, J&K, Delhi and Madhya Pradesh.

## Key financial indicators (Audited)

	FY2016	FY2017
Operating Income (Rs. crore)	258.51	465.68
PAT (Rs. crore)	13.27	29.37
OPBDIT/OI (%)	12.80%	13.12%
RoCE (%)	25.95%	37.96%
Total Debt/TNW (times)	0.95	0.54
Total Debt/OPBDIT (times)	1.96	0.90
Interest Coverage (times)	3.00	3.57

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

## Any other information: None

## Rating history for last three years

		Current Rating (FY2019)			Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating July 2018	Date & Rating in FY2018 November 2017	Date & Rating in FY2017 July 2016	Date & Rating in FY2016 July 2015
1 Cash Credit	Long Term	45.00	-	[ICRA]A-(Stable)	[ICRA]BBB (Stable) Withdrawn	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2 Bank Guarantee	Short Term	400.00	-	[ICRA]A2+	[ICRA]A3+ Withdrawn	[ICRA]A3+	[ICRA]A3+
3 Commercial Paper	Short Term	5.00	-	[ICRA]A2+	-	-	-

## 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: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	-	-	-	45.00	[ICRA]A- (Stable)
NA	Bank Guarantee	-	-	-	400.00	[ICRA]A2+
NA	Commercial Paper	-	-	-	5.00	[ICRA]A2+

Source: Shivalaya Construction Co. Pvt. Ltd.

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