

June 23, 2020

Sidhi Binayak Infrastructure: [ICRA]BB (Stable)/ [ICRA]A4+ assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Fund Based – Cash Credit	10.00	[ICRA]BB (Stable); Assigned
Non-fund Based – Bank Guarantee	2.00	[ICRA]BB (Stable)/ [ICRA]A4+; Assigned
Total	12.00	

*Instrument details are provided in Annexure-1

Rationale

The assigned ratings favourably factor in the promoters' established track record in the road construction business in Odisha and the status of Sidhi Binayak Infrastructure (SB) as a Super Class contractor registered with the Public Works Department (PWD), Odisha, which enables the firm to bid for relatively large-value contracts floated by various government departments. Besides, the firm's counterparty risk remains low as it executes contracts for government departments. The ratings also draw comfort from the presence of price variation clause in all the contracts, which mitigates the risk associated with fluctuation in input costs, to a large extent.

The ratings are, however, constrained by the large number of players and a tender-based order awarding system, resulting in intense competition in the road construction business, which exerts pressure on margins. Besides, the firm is exposed to high client and geographical concentration risks as its entire turnover is contributed by a few government departments in the western part of Odisha. The ratings are also constrained by SB's exposure to the risks associated with a partnership firm, including the risk of capital withdrawal by the partners. However, the firm's business is likely to be transferred to a private limited company in the near term.

The Stable outlook on the [ICRA]BB rating reflects ICRA's opinion that SB will continue to benefit from the long track record and experience of its promoters in the construction business.

Key rating drivers and their description

Credit strengths

Experience of the promoters in road construction business – Mr. Sunil Kumar Mahapatra, the key promoter of SB, has over three decades of experience in the road construction business. The other two partners also have prior experience in road construction and possess different classes of licence, which enable SB to bid for contracts of various sizes.

Registered as a Super Class contractor with PWD, Odisha – SB is a registered Super Class contractor with PWD, Odisha, which is the highest level of accreditation for road construction in the state. This enables SB to participate in tenders of relatively large value contracts, subject to fulfillment of the pre-bid qualifications.

Presence of price variation clause in all the contracts – Any significant increase in the input costs during the execution period may adversely impact SB's profitability. However, the presence of price-variation clause in all its contracts mitigates the risks arising from fluctuation in input costs during the execution period.

Credit challenges

Competitive nature of the construction business with many players and a tender-based order-awarding system – The contracts executed by the firm are awarded by the respective government departments to the lowest (L-1) bidder. The firm participates in government tenders, which require certain pre-bidding qualifications like operational track record, resource base, financial performance, net worth size and others. However, the firm faces stiff competition due to the fragmented nature of the industry and presence of many players.

Exposure to client concentration risk, however, counterparty risk remains low – The firm mainly executes contracts awarded by the Roads and Buildings Department and the Rural Works Department of Odisha mainly for widening and improving roads. This exposes the entity to client concentration risk. However, SB's counterparty risk remains low as it executes contracts for government departments.

Low geographical diversification with presence mainly in western Odisha – The firm's dependence on a few government departments in the western Odisha exposes it to geographical concentration risks and restricts its scale of operation. The firm's order book remained at a moderate level of Rs. 52.55 crore as on March 31, 2020. Nevertheless, in the current fiscal, SB has also received orders of around Rs. 50 crore for installation, electrification and commissioning of borewells, which are likely to strengthen and diversify its order book to some extent.

Risks associated with the entity's legal status as a partnership firm, including the risk of capital withdrawal by partners – Being a partnership firm, the risk of capital withdrawal remains inherent and any significant withdrawal of capital by the partners may necessitate additional borrowings. However, the firm's business is likely to be transferred to a private limited company in the near term.

Liquidity position: Stretched

SB's liquidity is stretched due to significant blockage of funds in the form of security deposits and retention money withheld by the government departments till the expiry of the warranty period. The utilisation of the firm's fund-based working capital limit remained very high in some of the recent months due to an intermittent increase in working capital requirement. Nevertheless, SB's limited long-term debt repayment obligation and a sizeable free cash balance are likely to support its liquidity to some extent.

Rating sensitivities

Positive triggers – ICRA may upgrade SB's ratings if the firm's top line improves significantly, aided by timely execution of existing orders as well as an adequate inflow of fresh orders.

Negative triggers – Pressure on SB's ratings may arise if there is a decline in the order book position and/ or delays in execution, which may adversely impact the revenues and profits of the firm. Besides, a significant deterioration in its net worth due to capital withdrawal by the promoters may also trigger a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Construction Entities
Parent/Group Support	Not applicable
Consolidation/Standalone	The rating is based on the standalone financial profile of the firm

About the company

Sidhi Binayak Infrastructure (SB) was formed as a partnership firm in FY2017 for the construction of roads with Mr. Sunil Kumar Mahapatra, Mr. Pramod Debta and Mr. Sagar Swarup Mahapatra as its partners. Mr. Sunil Kumar Mahapatra was earlier involved in road construction business through his proprietorship firm, Sunil Kumar Mahapatra (SKM). In FY2018, SB took over the business of SKM, and all the assets and liabilities of SKM were transferred to SB. The firm plans to transfer its business to a private limited company in the near term.

SB is empaneled as a Super Class contractor with the PWD, Government of Odisha. The firm is involved mainly in improving and widening of roads in western Odisha and executes contracts awarded by the government departments like Roads and Buildings Department and Rural Works Department of Odisha. Recently, the entity also received orders for installation, electrification and commissioning of borewells.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	43.76	84.43
PAT (Rs. crore)	1.14	2.52
OPBDIT/OI (%)	6.37%	5.54%
RoCE (%)	18.45%	20.37%
Total Outside Liabilities/Tangible Net Worth (times)	0.31	1.17
Total Debt/OPBDIT (times)	0.79	1.41
Interest Coverage (times)	35.21	4.61
DSCR	0.97	4.59

Note: In FY2018, the firm took over the operations of the erstwhile (Sunil Kumar Mahapatra) proprietorship firm.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Rating	FY2020	FY2019	FY2018
					23-June-2020			
1	Cash Credit	Long Term	10.0	-	[ICRA]BB (Stable)	-	-	-
2	Bank Guarantee	Long Term/ Short Term	2.0	-	[ICRA]BB (Stable)/ [ICRA]A4+	-	-	-

Amount in Rs. crore

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 [click here](#)

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	10.00	[ICRA]BB (Stable)
NA	Bank Guarantee	NA	NA	NA	2.00	[ICRA]BB (Stable)/ [ICRA]A4+

Source: Sidhi Binayak Infrastructure

Annexure-2: List of entities considered for consolidated analysis: Not applicable

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