



Press Release

Sewa Singh Oberoi & Company.

June 09, 2020

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating Assigned
1	Long Term Bank Facility- Cash Credit	2.00	IVR BBB- /Stable (IVR Triple B Minus with Stable Outlook)
2.	Short Term Bank Facility- Bank Guarantee	21.00	IVR A3 (IVR A Three)
	Total	23.00	

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Sewa Singh Oberoi & Company. (SSOC) draws comfort from its established presence in the construction sector backed by its long track record & highly experienced managerial & technical team with sound engineering acumen, proven project execution capability and reputed clientele. The ratings also consider its stable financial performance marked by improvement in operating income, moderate profit margins, comfortable capital structure with satisfactory debt protection metrics, efficient working capital management and strong order book reflecting satisfactory medium term revenue visibility. However, these rating strengths are partially offset by its constitution as partnership firm, geographical concentration of order book in the state of Chattisgarh, vulnerability of changes in budget allocation policies, volatile input prices and highly fragmented & competitive nature of the construction sector with significant price war.

Key Rating Sensitivities

Upward Factor:

- Growth in scale of operations with improvement in profitability on a sustained basis
- Sustenance of the capital structure with improvement in the debt protection metrics

Downward factor:

- More than expected dip in operating income and/or profitability impacting the debt protection metrics
- Moderation in the capital structure with deterioration in the overall gearing
- Moderation in the liquidity position



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List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Long track record & established presence in the construction sector**

Having established in 1987, the firm has a long track record of more than three decades with the current partners managing the firm since inception. The firm has completed a large number of construction projects and has positioned itself as one of the established players in the construction sector in the state of Chhattisgarh.

- **Highly experienced managerial & technical team with sound engineering acumen**

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Mr. Kanwaljit Kaur, main partner of the firm, looks after the overall operations of the firm, having an experience of more than 35 years in construction/infrastructure sector. He is well supported by other partners and a well experienced management team comprising mainly highly qualified & experienced professionals. The firm has acquired strong engineering acumen through its successful operations over the years and completed many complex road projects.

- **Proven project execution capability**

Over the years, the firm has successfully completed many projects across the country for Public Works Department and other government bodies. In order to manage the projects in a better way, the firm has a policy to handle limited number of projects at a time to ensure timely completion. The repeat orders received from its clientele validate its construction capabilities.

- **Reputed clientele**

Major clientele of the firm includes various state government departments [mainly Public Works Department (PWD)] and other Central and State Government corporations like Chhattisgarh Road Development Corporation Limited, Chhattisgarh State Industrial Development Corporation, etc. SSOC bids for tenders floated by various government entities across Chhattisgarh. However, the order book of SSOC is skewed towards PWD contracts indicating a client concentration risk, on one hand, and insulation from bearish phase of the domestic construction segment, on the other.

- **Strong order book reflecting satisfactory medium term revenue visibility**



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The firm has a strong order book position (Rs. ~242.17Crore as on May 31, 2020 which is about 1.74 times of its FY19 revenue (i.e. Rs.139.45 crore). The orders are expected to be completed within next two years, indicating a satisfactory medium term revenue visibility.

- **Stable financial performance**

SSOC has maintained a stable financial performance over the past years, despite slackness in the infrastructure/ construction industry in the recent past. As the projects undertaken by a construction firm span over different accounting periods, it may be important to view the financials of the firm over a period of three years. SSOC's total operating income has registered a muted CAGR of ~19.30% during FY17-19 with a y-o-y growth of about 16.41% in FY19, driven by higher orders executed during the year. SSOC posted an EBIDTA margin of 9.90% in FY19, a decrease of 36 bps, from 10.26% in FY18. The decline was mainly on account of execution of few lower margin orders. However, the PAT margin improved from 7.43% in FY18 to 7.68% in FY19, mainly driven by decline in finance charges and increase in EBITDA level. Further, in 10MFY20, SSOC achieved a PBT of Rs.8.36crore on a total operating income of Rs.106.41crore (SSOC achieved a PBT of Rs.7.95crore on a total operating income of Rs.103.63crore in 9MFY19) whereas the EBIDTA margin and the PBT margin stood at 13.54% and 7.86% respectively (11.24% and 7.67% respectively in 10MFY19). Overall the financial performance is largely stable and range bound.

- **Comfortable capital structure and debt protection metrics**

The capital structure of the firm is comfortable marked by the long term debt equity ratio remains low at 0.18x as on March 31, 2019 as against 0.30x as on March 31, 2018 and the overall gearing of 0.28x as on March 31, 2019 as against 0.40x as on March 31, 2018. Infomerics has considered Unsecured Loan from partners and related parties amounting to Rs.2.49 crore as quasi equity and excluded it from total debt. The improvement in capital structure is on account of repayment of vehicle loan and accretion of profit to reserves. Moreover, the debt protection metrics of the firm also improved and remained healthy, marked by the interest coverage ratio at 6.74x in FY19 as compared to 5.77x in FY18 and Total debt to GCA at 0.99 years in FY19 as compared to 1.35 years in FY18.

- **Efficient working capital management**

Relatively longer credit periods were availed from suppliers (82 days in FY18 vis-à-vis 57 days in FY19) helped SSOC fund its working capital requirement. The collection period



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remained high at 34 days in FY19 vis-à-vis 11 days in FY18. Currently SSOC is receiving payment from debtors within 30-50 days. Average fund based utilization for last 12 month ended May 31, 2020 is 85.04% and for non-fund based limit is 77.75%.

Key Rating Weaknesses

- **Constitution as partnership firm**

SSOC, being a partnership firm, is exposed to inherent risk of the partner's capital being withdrawn at time of personal contingency and firm being dissolved upon the death/retirement/insolvency of the partners. Moreover, partnership firms have restricted access to external borrowing as credit worthiness of partners would be the key factors affecting credit decision for the lenders. In FY19, Rs.3.46 crore was withdrawn by the partners mainly in the form of interest to partners.

- **Geographical concentration of order book and vulnerability of changes in budget allocation policies with intense competition**

The project portfolio of SSOC is concentrated in the state of Chhattisgarh. Any change in geo political environment would affect all the projects at large. Furthermore, any changes in current policies of the state government with regard to change in budget allocation would impact SSOC's revenue considerably. SSOC operates in an industry characterised by the presence of many small and mid-sized players resulting into a fragmented and competitive nature of industry. Furthermore, the awards of contracts are tender-driven and lowest bidder gets the work. Increase in competition on the back of bid-driven nature of the business and relaxation in the pre-qualification criteria by some of the nodal agencies has resulted in aggressive bidding by many construction companies during the last couple of years.

- **Volatile input prices**

Major raw materials used in civil/railway construction activities are steel and cement which are usually sourced from large players at proximate distances. While the input prices being generally volatile and having direct linkage with state of the economy, the cost of raw materials, as a percentage of gross billing, remained at the same level during the last two years on account of optimum use of raw materials and most of the contracts having escalation clause.

- **Highly fragmented & competitive nature of the construction sector with significant price war**



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The domestic infrastructure/construction sector is highly crowded with presence of many players with varied statures & capabilities. Boom in the infrastructure sector, a few years back, resulted in increase in the number of players. While the competition is perceived to be healthy, significant price cut by few players during the bidding process is a matter of serious concern for the users with respect to quality of output. However, SSOC's niche customer, PWD, witnessed insignificant storm which kept the firm largely insulated from the bearish phase of infrastructure segment, as a whole.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Infrastructure Sector Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity Position: Adequate

The liquidity position of the firm is expected to remain adequate in the near to medium term driven by sufficient cushion in expected accruals in the range of ~Rs.20-23crore as compared to debt repayment obligation in the range of ~Rs.2.00crore during FY20-22. Further, with a gearing of 0.28 times as of March 31, 2019, the firm has sufficient gearing headroom. Moreover, the firm has no major near term capex plan, which imparts comfort. Besides, its average of maximum bank limit utilisation remained moderate at ~85% in the last 12 months ended on May 2020 is also indicating an adequate liquidity buffer. The firm also has adequate unutilised non fund based limits to support its operations in the near term.

About the Firm

M/s SSOC was established in 1997 as a partnership firm. The firm is engaged in civil construction works of roads & other structures, basically in the state of Chhattisgarh for Public Works Department (PWD), Government of Chhattisgarh and other government and non-government organization. The firm is registered as a class A5 contractor in the Chhattisgarh State.

Financials (Standalone)

(Rs. crore)

For the year ended* / As On	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	119.79	139.45
EBITDA	12.29	13.81



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For the year ended* / As On	31-03-2018	31-03-2019
PAT	9.04	10.85
Total Debt [#]	16.26	13.54
Tangible Net worth [#]	40.47	47.86
EBITDA Margin (%)	10.26	9.90
PAT Margin (%)	7.43	7.68
Overall Gearing Ratio (x) [#]	0.40	0.28

#Considering subordinated USL from partners and related parties as quasi equity and excluding it from total debt.

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA:CARE has moved the rating to 'issuer non cooperating category vide its press release dated March 30,2020.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Ratings	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Cash Credit	Long Term	2.00	IVR BBB-/ Stable Outlook	-	-	-
2.	Bank Guarantee	Short Term	21.00	IVR A3			

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities



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and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine-tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facility- Cash Credit	-	-	-	2.00	IVR BBB-/ Stable Outlook
Short Term Bank Facility- Bank Guarantee	-	-	-	21.00	IVR A3
Total				23.00	