

Press Release

Sunil Kumar Agarwal LLP (SKAL)

March 06, 2020

Rating

Instrument / Facility	Amount (Rs. Crore)	Ratings	Rating Action
Long Term Bank Facilities- Cash credit	15.00	IVR BBB /Positive (IVR Triple B with Positive Outlook)	Assigned
Total	15.00		

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of Sunil Kumar Agarwal LLP (SKAL) derives comfort from its established track record of operations and experienced management, proven project execution capability, reputed clientele and healthy order book giving visibility to revenue in the near to medium term though exposed to geographical/project concentration risks. The rating also factors in continuous improvement in revenue and profit margins and its comfortable capital structure with healthy debt protection metrics. However, the rating strengths are partially offset by susceptibility of profitability to volatile input prices, tender driven nature of business in highly fragmented & competitive construction sector and high working capital intensity. The outlook remain positive on the back of SKAL's expected improvement in scale of operations and financial risk profile marked by improvement in cash accruals.

Rating Sensitivities

Upward Factor:

- Growth in scale of operations with improvement in profitability leading to improvement in debt protection metrics on a sustained basis
- Sustenance of the capital structure
- Sufficient liquidity buffer with enhancement in the existing limits or working capital limits utilisation below 90% on a sustained basis

Downward factor:

- Moderation in the capital structure with deterioration in overall gearing to more than 1x and impairment in debt protection metrics

- Deterioration in liquidity position due to inability to obtain enhancement in the existing limits or high working capital intensity, resulting in heavy utilisation of the existing limits.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Established track record of operations and experienced management**

SKAL was established in 1990 as a proprietorship firm by Mr. Sunil Kumar Agrawal and family. Hence, it has a track record of around three decades in this line of business. It undertakes civil works, construction of roads and maintenance for state government departments under various government schemes with major focus on road construction. The day-to day operations are led by Mr. Sunil Kumar Agrawal, who has an experience of more than three decades in the construction business.

- **Proven project execution capability**

Over the years, the firm has successfully completed many projects across the country for various medium to large government companies. In order to manage the projects in a better way and to grow in a balanced way, the firm has a policy to take up short to medium term projects (1-2 years) and 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**

SKAL undertakes infrastructure projects for National Highways Authority of India (NHAI), Public Works Department, Pradhan Mantri Gram Sadak Yojna (PMGSY), Mukhya Mantri Gram Sadak Yojana (MMGSY).

- **Healthy order book giving visibility to revenue in the medium term though exposed to geographical/project concentration risks**

The firm has a strong order book position comprising 51 contracts aggregating to about Rs.743.76 Crore as on December 31, 2019 which is about 3.66 times of its FY19 construction revenue (i.e., Rs.203.04 crore). The orders are expected to be completed within next one-two years, indicating a satisfactory near to medium term revenue visibility. However, the firm has ~98% of road work orders in the state of Chhattisgarh. The top five projects of the firm also constitute ~81% of the outstanding order book position. Furthermore, the firm has a single work order of Rs.486 crore which forms ~65% in the current order book with respect to Construction of Raj Bhawan, Hon. Chief Minister House, Hon. Ministers Residential House &

Higher Officers Residential House in Raipur-Chhatisgarh and thereby signifying geographical/project concentration risks exists.

- **Improvement in revenue and profit margins**

SKAL's total operating income grew at a CAGR of ~76% over the last three years FY17-FY19. The firm witnessed improvement by 79.27% in FY18 to Rs.117.17 crore on account of higher execution of road projects for government departments in the state of Chhattisgarh followed by further improvement of 73.28% in FY19 to Rs.203.04 crore driven by higher order inflow and higher execution of orders. The EBITDA margin of the firm has improved from 10.86% in FY18 to 11.86% in FY19 driven by better management of its operating expenses coupled with execution of high margin orders. Furthermore, the PAT margin of the firm also improved from 7.82% in FY18 to 8.41% in FY19 mainly on account of increase in absolute EBITDA. In 9MFY20, SKAL reported an EBITDA of Rs.15.45 crore (Rs.8.11 crore in 9MFY19) and PBT of Rs.8.59 crore (Rs.4.14 crore in 9MFY19).on a total operating income of Rs.119.00 crore (Rs.65.67 crore in 9MFY19).

- **Comfortable capital structure with healthy debt protection metrics**

The overall gearing of the firm, though deteriorated from 0.48x as on March 31, 2018 to 0.60x as on March 31, 2019 mainly due to increase in equipment financing and long-term loans, continues to remain comfortable. The firm avails equipment loans depending upon requirement for specific project execution. The investment in assets (equipment's) of the firm has increased as reflected by increase in gross block of the firm from Rs.27.31 crore as on March 31, 2018 to Rs.40.22 crore as on March 31, 2019. Total indebtedness of the firm as reflected by TOL/TNW stands comfortable at 0.96x as on March 31, 2019. The debt protection indicators of the firm like interest coverage has improved from 4.12x in FY18 to 5.12x due to higher absolute EBITDA in FY19. Further, Total Debt/GCA improved from 2.57 years in FY18 to 1.83 years in FY19 mainly due to increase in cash accruals. The firm has generated a cash accruals of Rs.22.40 crore in FY19 (Rs.12.80 crore in FY18) as against its debt repayment obligation of Rs.5.97 crore.

Key Rating Weaknesses

- **Susceptibility of profitability to volatile input prices**

Major raw materials used in construction activities are steel and cement which are usually sourced from large players at proximate distances. The input prices are generally volatile and consequently the profitability of the firm remains susceptible to fluctuation in input prices. However, presences of escalation clause in most of the contracts provides significant comfort.

- **Tender driven nature of business in highly fragmented & competitive construction sector**

Execution risks for newly awarded projects in a timely manner will be key to achieving growth in revenues and profits. Business certainty is dependent on the firm's ability to successfully bid for the tenders as entire business is tender based. The domestic infrastructure/construction sector is highly fragmented 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.

- **High working Capital intensity**

Construction business, by its nature, is working capital intensive. A large amount of its working capital remained blocked as retention money, earnest money deposit and security deposit. The working capital requirement of the firm is mainly funded through credit period availed from its creditors based on its established relationship and bank borrowings. Further, the firm has a strategy to take up short-medium duration contracts and optimize the execution time to realize the payments faster in order to manage working capital requirements efficiently. Average utilization of fund based limit of SKAL is high ~98% for the last 12 months ended January 31, 2020. However, the firm has received an addition cash credit limit sanction of Rs.11 crore in February, 2020 which is expected to support its liquidity in the near term. Further, the firm has unutilized non fund based limits of Rs.38.54 crore which will support its bidding power.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity: Adequate

The Firm earned GCA of Rs.22.40 crore in FY19. Further, liquidity position of the firm is expected to remain adequate marked by its expected cash accruals of Rs.23.27 crore in FY20 compare to its debt repayment of Rs.4.87 crore in FY20. The average bank limit utilisation of the company remained high at ~98% during the past 12 months ended January, 2020 indicating a limited liquidity buffer. However, the firm has received an addition cash credit limit sanction of Rs.11 crore in February, 2020 which is expected to support its liquidity in the near term.

Further, the firm has unutilized non fund based limits of Rs.38.54 crore which will support its bidding power.

About the Firm

Sunil Kumar Agarwal LLP is established as a proprietorship firm in the year 1990 by Mr. Sunil Kumar Agarwal. In 2002, it has been converted into partnership firm and subsequently to manage its growing scale of operation, it has been converted to Limited Liability partnership in 2017. It is a Raipur based firm managed by Mr. Sunil Kumar Agrawal and his family members. The firm undertakes road construction and maintenance projects for various schemes under central government, state government departments such as the Public Works Department, National Highway Authority of India under Pradhan Mantri Gram Sadak Yojna (PMGSY), Mukhya Mantri Gram Sadak Yojana (MMGSY) in and around Chhattisgarh.

Financials (Standalone):

For the year ended* / As On	(Rs. crore)	
	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	117.17	203.04
EBITDA	12.73	24.09
PAT	9.41	17.33
Total Debt	32.85	41.03
Tangible Net worth	69.11	68.15
EBITDA Margin (%)	10.86	11.86
PAT Margin (%)	7.82	8.41
Overall Gearing Ratio (x)	0.48	0.60

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: ACUTE has moved the rating of SKAL into the Issuer Non-Cooperating category as the company did not co-operate in the rating procedure despite repeated follow ups as per the Press Release dated May 20, 2019.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Cash Credit	Long Term	15.00	IVR BBB/ Positive Outlook	-	-	-

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:

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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)	Ratings Assigned/ Outlook
Long Term Bank Facilities - Cash Credit	-	-	-	15.00	IVR BBB / Positive Outlook
Total				15.00	