



Press Release

Sunil Kumar Agarwal LLP (SKAL)

September 11, 2020

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Ratings	Rating Action
1.	Long Term Bank Facilities-Cash Credit	30.00	IVR BBB/ Positive (IVR Triple B with Positive Outlook)	Reaffirmed
2.	Short Term Bank Facilities-Bank Guarantee	90.00	IVR A3+ (IVR A Three Plus)	Reaffirmed
		120.00 (Rupees One hundred and twenty crore only)		

Details of Facilities are in Annexure 1

Detailed Rationale

The reaffirmation of the ratings of the bank facilities of Sunil Kumar Agarwal LLP considers the close operational and financial linkages between Sunil Kumar Agarwal LLP and Hill Brow Metallics and Construction Pvt Ltd. (commonly referred as SKA group) While reaffirming the ratings, Infomerics has taken a consolidated view of these entities. The ratings take into account the consolidated entity's established track record of operations under an 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 ratings also factor in continuous improvement in revenue and profit margins of the group and its comfortable capital structure with healthy debt protection metrics. However, these 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 remains positive on the back of SKA's group 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



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- 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**

The promoters of the group are associated with the construction industry for over three decades, since SKAL was initially established as a proprietorship firm in 1990. 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. Hill-Brow Metallica and Construction Private Limited, a company promoted by Mr. Sunil Kumar Agarwal and his brother Mr. Anil Kumar Agarwal is one of the partner in SKAL. Over the years, the promoters have developed immense industry insight and market reach which has enabled them to occupy a dominant position in the construction business in the state of Chhattisgarh. Infomerics expects benefits derived from the promoters' extensive experience and established goodwill in the market will continue to support the business going forward.

- **Proven project execution capability**

Over the years, the group 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 group 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**



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SKA group undertakes infrastructure projects for National Highways Authority of India (NHA), Public Works Department, Pradhan Mantri Gram SadakYojna (PMGSY) and MukhyaMantri Gram SadakYojana (MMGSY).

- **Healthy order book position indicting satisfactory near to medium term revenue visibility**

SKAL has a strong order book position comprising 28 contracts aggregating to about Rs.467.74Crore as on July 31, 2020 which is about 2.36 times of its FY20 construction revenue (i.e., Rs.198.24 crore). This apart, the firm has L1 order amounting to Rs.431.01crore, which they expect to get by mid of September 2020. 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 around 98% of road work orders in the state of Chhattisgarh, thereby signifying geographical/project concentration risks exists.

HBMCP has a strong order book position comprising 6 contracts aggregating to about Rs.361.32Crore as on August 04, 2020 which is about 4.00 times of its FY20 revenue. In this order, contract of Rs.263.10 crore from South Eastern Railways Bilaspuris included, which constitutes ~73% of the current order book. The orders are expected to be completed within next one-two years, indicating a satisfactory near to medium term revenue visibility. However, the company has 100% of road work orders in the state of Chhattisgarh, thereby signifying geographical/project concentration risks exists.

- **Continues improvement in revenue and healthy profit margins**

The total operating income of group grew at a CAGR of ~42% with y-o-y growth of ~106% in FY19 to Rs.262.01 crore. This increase in turnover in FY19 is driven by execution of higher orders. Further in FY20, the group witnessed a moderate growth of ~10% to Rs.287.91 crore mainly driven by higher execution of contracts (mainly road projects) for government departments in the state of Chhattisgarh. Moreover, the revenue was also impacted due to business disruption in the last of FY20. The profit margin of the group remained comfortable over the years marked by its healthy EBITDA margin and PAT margin. The EBITDA margin of the group has improved from 11.49% in FY18 to 13.72% in FY20 (Prov.) mainly driven by better management of its operating expenses owing to higher absorption of fixed overheads coupled with execution of high margin road contracts. Furthermore, the PAT margin of the group remained healthy over the years and stood at 10.34% in FY20 (Prov.).



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

The capital structure of the group remained comfortable over the past fiscals marked by its comfortable leverage ratios. The overall gearing ratio of the group stood comfortable at 0.34x as on March 31, 2020. Total indebtedness of the group as reflected by TOL/TNW also stood comfortable at 0.92x as on March 31, 2020 (Prov.). Debt protection parameters marked by interest coverage ratio and Total Debt to GCA remained comfortable over the years and the group reported interest coverage of 5.13x and Total debt to GCA of 1.09 years in FY20 (Prov.)

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, presence 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 group'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 group is mainly funded through credit period availed from its creditors based on its established relationship and bank borrowings. Further, the group 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



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requirements efficiently. Average utilization of fund based limit of group is high ~95% for the last 12 months ended July 31, 2020.

Analytical Approach: Consolidated Approach

For arriving at the rating, Infomerics has combined the financial risk profiles Sunil Kumar Agarwal LLP and Hill Brow Metallics and Construction Pvt Ltd(HBMCPL) as these entities are run under a common management, have strong operational and financial linkages and cash flow fungibility. Further, both these entities (commonly referred as SKA group) are in construction business and HBMCPL is one of the partner of Sunil Kumar Agarwal LLP.

The lists of Companies considered for consolidation are given in Annexure 2.

Applicable Criteria:

Rating Methodology for Infrastructure Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity: Adequate

The group earned GCA of Rs.36.67 crore in FY20(Prov.). Further, liquidity position of the group is expected to remain adequate marked by its expected cash accruals of Rs.39.04 crore in FY21 compare to its debt repayment of Rs.5.48 crore in FY21. The average bank limit utilisation of the group remained high at ~95% during the past 12 months ended July, 2020 indicating a limited liquidity buffer.

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. M/S Hill-Brow Metallics and Construction Private Limited, renamed in 2007, was originally incorporated in 2004 in the name of Hill-Brow Metallics Private Limited by Mr. Sunil Kumar Agarwal. HBMCPL is a partner in Sunil Kumar Agarwal LLP.

Both these firms undertake 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.



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Financials (Combined):

For the year ended* / As On	(Rs. crore)	
	31-03-2019	31-03-2020
	Audited	Provisional
Total Operating Income	262.01	287.91
EBITDA	30.28	39.50
PAT	23.10	30.57
Total Debt	51.70	39.95
Tangible Net worth	86.37	118.70
EBITDA Margin (%)	11.56	13.72
PAT Margin (%)	8.61	10.34
Overall Gearing Ratio (x)	0.60	0.34

*Classification as per Infomerics' standards.

Financials (Standalone):

For the year ended* / As On	(Rs. crore)	
	31-03-2019	31-03-2020
	Audited	Provisional
Total Operating Income	203.04	198.24
EBITDA	24.09	30.89
PAT	17.33	21.70
Total Debt	41.03	34.41
Tangible Net worth	68.15	94.95
EBITDA Margin (%)	11.86	15.58
PAT Margin (%)	8.41	10.84
Overall Gearing Ratio (x)	0.60	0.36

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: Brickwork has moved the rating of HBMCP 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 June 03, 2020.

Any other information: Nil

Rating History for last three years:

Sr.	Name	of	Current Rating (Year 2020-21)	Rating History for the past 3 years
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No.	Instrument/Facilities	Type	Amount outstanding (Rs. Crore)	Rating	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	30.00	IVR BBB/ Positive Outlook	IVR BBB/ Positive Outlook (March 07,2020)	IVR BBB/ Positive Outlook (March 06,2020)	-	-
2.	Bank Guarantee	Short Term	90.00	IVR A3+	IVR A3+ (March 07,2020)		-	-

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 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.

Disclaimer: Infomerics ratings are based on information provided by the issuer on an 'as is where is' basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change, suspend or withdraw the credit ratings at any point in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs),



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the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

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	-	-	-	30.00	IVR BBB / Positive Outlook
Short Term Bank Facilities- Bank Guarantee	-	-	-	90.00	IVR A3+
Total				120.00	

Annexure 2

Name of the Company	Consolidation Approach
Sunil Kumar Agarwal LLP	Full consolidation
Hill Brow Metallics and Construction Pvt Ltd	Full consolidation