

Press Release

Sarjan Infracon Private Limited (SIPL)

March 22, 2017

Rating Assigned

Total Bank Facilities Rated*	Rs. 30.00 Cr
Long Term Rating	SMERA BB+/Stable
Short Term Rating	SMERA A4+

*Refer Annexure for details

Rating Rationale

SMERA has assigned long term rating of '**SMERA BB+**' (**read as SMERA double B plus**) and short term rating of '**SMERA A4+**' (**read as SMERA A four plus**) on the Rs.30.00 crore bank facilities of Sarjan Infracon Private Limited (SIPL). The outlook is '**Stable**'.

SIPL incorporated in 2006, is an Ahmedabad (Gujarat) based company, engaged in road construction.

List of key rating drivers and their detailed description

Strengths

Experienced management: Mr. Jayantibhai Mafatlal Patel, Promoter possesses experience of over four decades in the construction industry.

Healthy order book: The company has order book of ~Rs.178.00 cr (as of February end, 2017) as against revenue of Rs.65.87 cr in FY2015-16 (~2.7 times of the revenues of FY2015-16) thus creating medium term revenue visibility.

Comfortable financial risk profile: The company has a comfortable financial risk profile with networth base of Rs.14.17 cr as on 31 March 2016. The TOL/ TNW ratio also stood comfortable at 1.05 times as on 31 March, 2016.

The company generated net cash accruals of Rs.3.65 cr in FY2016 as against Rs. 3.27 cr in FY2015. The debt protection metrics are comfortable with NCATD (Net cash accruals to Total Debt) of 1.42 times in FY2016. The interest coverage ratio and debt service ratio stood comfortable at 7.19 times and 5.23 times respectively in FY2016.

Weaknesses

Susceptibility of operating cash flows to timely flow of orders: The revenues are moderate at Rs.65.87 cr in FY2016 and have remained almost stagnant during the period (FY2014 to FY2016). However, as on December, 2016 (Provisional - April to December, 2016) the company achieved revenue of Rs.51.43 cr and the same is expected to increase owing to the healthy orders in hand of around ~Rs.178 cr.

Further, the company's revenues are dependent on contracts received through Sadhbav Engineering Limited (contributes almost ~40 per cent to revenue). The company is also dependent

on tenders floated by government entities such as Surat Municipal Corporation, Airport Authorities of India, etc. The tender based business along with low entry barriers in the industry leads to intense competition in bids.

Further, the company was catering mostly to projects in Gujarat for the last three years, thus exposing itself to geographical concentration risk. However, it has of late made attempts to diversify to other regions - Odisha and Tripura in the current year.

SMERA believes that any event such as a significant slowdown in receipt of orders, deferment of projects by the counterparty or delay in realisation of receivables from major customers will have a bearing on the operating cash flows and credit profile of the company.

Analytical approach: SMERA has considered the standalone financial and business risk profiles of the company to arrive at the ratings.

Applicable Criteria

- Application of Financial Ratios & Adjustments - <https://www.smerra.in/criteria-fin-ratios.htm>
- Default Recognition - <https://www.smerra.in/criteria-default.htm>

Outlook: Stable

SMERA believes that SIPL will maintain a stable outlook in the medium term on account of its experienced management and healthy order book position providing revenue visibility over the medium term. The outlook may be revised to 'Positive' in case the company registers higher-than-expected growth in revenues and net cash accruals while maintaining healthy debt protection metrics. Conversely, the outlook may be revised to 'Negative' if the company registers lower-than-expected growth in revenues and profitability or deterioration in the financial risk profile or higher than expected working capital requirements.

About the Rated Entity

SIPL incorporated in 2006, is an Ahmedabad (Gujarat) based company promoted by Mr. Jayantibhai Patel and Mr. Dipak Patel. The company is engaged in the business of road construction.

For FY2015-16, SIPL reported profit after tax (PAT) of Rs.1.94 cr on operating income of Rs.65.87 cr, as compared with profit after tax (PAT) of Rs.1.58 cr on operating income of Rs.60.21 cr in FY2014-15.

Status of non-cooperation with previous CRA (if applicable): CARE Ratings in the press release dated March 02, 2016 has suspended the rating of Sarjan Infracon Private Limited and has stated the following "The ratings have been suspended as the company has not furnished the information required by CARE for monitoring of the rating."

Any other information: Not Applicable

Rating History for the last three years:

Name of Instrument /Facilities	FY2017			FY2016		FY2015		FY2014	
	Scale	Amount (Rs. Crore)	Rating with Outlook	Date	Rating	Date	Rating	Date	Rating
Cash Credit	LT	4.00	SMERA BB+/Stable (Assigned)	-	-	-	-	-	-
Bank Guarantee	ST	26.00**	SMERA A4+ (Assigned)	-	-	-	-	-	-

**includes sublimit of Letter of Credit upto Rs. 1.00 cr.

***Annexure – Details of instruments rated:**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr)	Ratings/Outlook
Cash Credit	NA	NA	NA	4.00	SMERA BB+/Stable (Assigned)
Bank Guarantee	NA	NA	NA	26.00**	SMERA A4+ (Assigned)

**includes sublimit of Letter of Credit upto Rs. 1.00 cr.

Note on complexity levels of the rated instrument: <https://www.smera.in/criteria-complexity-levels.htm>

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ABOUT SMERA

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