

Press Release

Kanwaldeep Singh Sodhi

April 03, 2017

Rating Assigned

Total Bank Facilities Rated*	Rs. 7.50 Cr.
Long Term Rating	SMERA B+ / Outlook: Stable
Short Term Rating	SMERA A4

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA B+**' (**read as SMERA B plus**) and short term rating of '**SMERA A4**' (**read as SMERA A four**) on the Rs. 7.50 crore bank facilities of Kanwaldeep Singh Sodhi. The outlook is '**Stable**'.

The Indore-based Kanwaldeep Singh Sodhi (KSS), a proprietorship firm was established in 2004 by Mr. Kanwaldeep Singh Sodhi. KSS is engaged in the civil construction business. The firm constructs buildings, sheds and roads for government entities such as Madhya Pradesh State Agricultural Marketing Board and MP Police Housing Corporation Ltd.

Key Rating Drivers

Strengths

- Established track record of operations and experienced management**

KSS was established in 2004. The proprietor, Mr. Kanwaldeep Singh Sodhi possesses experience of over a decade in civil construction.

- Long term relations with government agencies**

KSS has executed civil construction work for Madhya Pradesh State Agricultural Marketing Board and MP Police Housing Corporation Ltd. As a result, the firm enjoys long term relations with government organisations.

- Healthy order book position**

KSS has healthy order book position marked by unexecuted orders in hand of Rs. 34.64 cr as on Feb 2017 that provides revenue visibility for the medium term.

- Efficient working capital management and comfortable coverage indicators**

The firm's working capital cycle is comfortable with Gross current asset (GCA) days at ~61 for FY2015-16. The comfortable GCA emanates from the inventory days of 4, debtor days of 1 and creditor days of 59 for FY2016. Further, bank utilisation limit also stands comfortable with average utilisation of 50 percent for six months ended February, 2017. Further, coverage indicators are comfortable as interest coverage ratio stands at 3.11 times and Debt Service Coverage Ratio (DSCR) stands at 2.65 times for FY2015-16.

Weaknesses

- Small scale of operations, uneven revenue**

The scale of operations have remained small despite the long track record of operations. KSS reported operating income of Rs.14.29 cr in FY2016 as against Rs.8.64 cr in FY2015. Further, the firm achieved revenue of Rs. 6.74 cr from Apr 2016 to Feb 2017. The uneven revenues are due to the

tender based nature of business.

• Intense market competition and high dependence on orders from the government

The firm faces intense market competition in the civil construction industry. KSS has high dependence on tender-based government orders.

• Risk of capital withdrawal

The proprietorship constitution of the firm exposes it to capital withdrawal risk.

Analytical Approach

SMERA has considered the standalone financial and business risk profiles of KSS.

Outlook: Stable

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

About the Rated Entity - Key Financials

KSS reported net profit of Rs. 0.65 cr on net sales of Rs.14.29 cr in FY2016, compared to net profit of Rs. 0.49 cr on net sales of Rs. 8.64 cr in FY2015. The tangible net worth for FY2016 stood at Rs.1.58 cr.

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Infrastructure Entities - <https://www.smera.in/criteria-infra.htm>
- Application of Financial Ratios and Adjustments: <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

***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	Not Applicable	Not Applicable	Not Applicable	1.50	SMERA B+ / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	2.50	SMERA A4
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.00	SMERA B+ / Stable
Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	2.50	SMERA A4

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