

Press Release

Sanjeev Kumar Goyal Contractor (SKGC)

May 17, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 14.00 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 minus) and short term rating of '**SMERA A4+**' (read as SMERA A four plus) on the Rs. 14.00 crore bank facilities of 'Sanjeev Kumar Goyal Contractor.' The outlook is 'Stable.'

Sanjeev Kumar Goyal Contractor (SKGC) was established in 1994 as a proprietorship firm by Mr. Sanjeev Kumar Goyal. Subsequently in 2010, the constitution was changed to a partnership concern with the introduction of his brothers - Mr. Amit Goyal and Mr. Khet Ram Goyal. The firm is primarily engaged in civil construction majorly road construction for government of Punjab.

Key Rating Drivers

Strengths

• Experienced management and long track record of operation

The promoters Mr. Sanjeev Kumar Goyal, Mr. Amit Goyal and Mr. Khet Ram Goyal have total experience of around two decades in civil construction work. Over the years, the long standing experience of the promoters has helped them to establish comfortable relation with their key suppliers and customers.

• Comfortable financial risk profile

The comfortable financial risk profile of the firm is marked by moderate networth of Rs.11.39 crore in FY2017 as increased from Rs.8.01 crore in FY2016. Networth includes unsecured loan of Rs. 4.21 crores from promoters where the management has provided an undertaking to SMERA that the same would be maintained in the business over the medium term. SMERA has treated the unsecured loans to the tune of Rs. 4.21 crores as quasi equity. The gearing of the firm stood comfortable at 0.57 times in FY2017 as against 0.63 times in FY2016. The interest coverage ratio (ICR) of the firm stood healthy at 2.98 times in FY2017 as compared to 2.10 times in FY2016. The debt service coverage ratio (DSCR) of the firm stood comfortable at 2.85 times in FY2017 as compared to 2.10 times in the previous year. The net cash accrual to total debt (NCA/TD) stands comfortable at 0.33 times in FY2017 as compared to 0.17 in the previous year.

Weaknesses

• Working capital intensive nature of operation

SKGC's nature of operations is working capital intensive marked by high Gross Current Asset (GCA) days of 178 days and 300 days in FY2017 and FY2016 respectively. Such high GCA days is mainly due to moderate debtor days (37 days and 87 days in FY2017 and FY2016 respectively) as firm mainly caters to the Punjab Government. The firm also has to maintain significant amount of raw materials inventory due to volatility in raw material prices. The inventory days stood at 69 days and 58 days in FY2017 and FY2016 respectively.

- **Competition from small and established players in the industry**

SKGC operates in highly fragmented industry with limited entry barriers wherein the presence of large number of players in the unorganized sector limits the bargaining power with customers.

Analytical Approach

For arriving at the ratings SMERA has considered the standalone financial performance and financial risk profile of SKGC.

Outlook: Stable

SMERA believes that SKGC will continue to benefit over the medium term from the comfortable financial risk profile. The outlook may be revised to 'Positive' if SKGC achieves more than envisaged sales and profitability while maintaining its financial risk profile. Conversely, the outlook may be revised to 'Negative' if the firm fails to achieve growth in revenue and financial risk profile deteriorates owing to higher-than-expected increase in working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	40.18	12.35	29.82
EBITDA	Rs. Cr.	2.89	1.60	2.61
PAT	Rs. Cr.	1.82	0.55	1.37
EBITDA Margin	(%)	7.20	12.95	8.76
PAT Margin	(%)	4.54	4.46	4.61
ROCE	(%)	18.89	9.18	14.31
Total Debt/Tangible Net Worth	Times	0.57	0.63	1.46
PBDIT/Interest	Times	2.98	2.10	2.77
Total Debt/PBDIT	Times	1.99	3.11	3.58
Gross Current Assets (Days)	Days	178	300	178

Status of non-cooperation with previous CRA (if applicable)

NA

Any other information

NA

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Infrastructure Entities - <https://www.smera.in/criteria-infrastructure.htm>
- 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	8.00	SMERA BB-/Stable
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	6.00	SMERA A4+

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ABOUT SMERA

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