

Press Release

Sewasingh Oberoi And Company

October 07, 2022



Rating Reaffirmed

| Product | Quantum (Rs. Cr) | Long Term Rating | Short Term Rating |
|------------------------------------|------------------|--|----------------------------|
| Bank Loan Ratings | 2.00 | ACUITE BBB Negative Reaffirmed Stable to Negative | - |
| Bank Loan Ratings | 21.00 | - | ACUITE A3+ Reaffirmed |
| Total Outstanding Quantum (Rs. Cr) | 23.00 | - | - |
| Total Withdrawn Quantum (Rs. Cr) | 0.00 | - | - |

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) and the short-term rating of '**ACUITE A3+**' (read as **ACUITE A three plus**) on the Rs.23.00 Cr bank facilities of Sewasingh Oberoi and Co (SOC). The outlook is revised from '**Stable**' to '**Negative**'.

The outlook revision is primarily driven by the constant deterioration in the operating income of the firm. Also, the working capital management of the firm has considerably elongated over the same period.

However, the rating continues to reflect the management's long track record in the industry and the recent ramp up in their scale of operations in FY2023. The rating also derives comfort from the healthy order book position marked by presence of the government clientele. Further, Acuite also notes the firm's sustained financial risk performance reflected by the low gearing and healthy debt coverage indicators.

About the Company

Established in 1997, Sewasingh Oberoi and Co (SOC) is a partnership firm engaged in civil construction works. The firm is based in Chhattisgarh and is headed by Mr. Sewa Singh Oberoi and Mr. Kanwaljit Singh Oberoi. SOC is registered as a class A contractor with PWD, Chhattisgarh and undertakes contracts for constructing roads and bridges.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of SOC to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management and strong customer base**

Established in 1997, the firm has a long track record of operations in the industry. With the extensive experience of the partners', Mr. Sewa Singh Oberoi and Mr. Kanwaljit Singh Oberoi, SOC has been able to maintain the regular flow of orders by establishing a strong customer base. The firm executes projects issued by Public Works Department (PWD) and Chhattisgarh State Industrial Development Corporation Limited (CSIDL). Acuité believes that the long operational track record of SOC and the managements' extensive understanding and expertise will support the firm's growth plans going forward.

- **Significant improvement in the performance in H1 of FY2023**

SOC has registered improvement in their performance in the first half of FY2023 and has generated revenues of Rs.41.96 Cr till August, 2022 (provisional). Going forward, the firm has a healthy order book position to the tune of Rs.233.93 Cr as on August, 2022 to be executed in the next 24-36 months. However, SOC's operating income has declined to Rs.52.46 Cr in FY2022 (provisional) as compared to Rs.69.51 Cr in FY2021. The dip in revenues are due to the delayed order execution on account of the covid induced lockdown in the first quarter of FY2022 followed by rising labour issues faced by the firm in that year. Due to these factors, SOC was only able to operate for a period of 4-5 months in FY2022. Acuité believes that the healthy order pipeline of the firm imparts comfortable revenue visibility over the medium term.

- **Above average financial risk profile**

The above average financial risk profile of the firm is marked by moderate albeit improving net worth, low gearing and healthy debt protection measures. The tangible net worth of the firm increased to Rs.55.18 Cr as on March 31, 2022 (provisional) as compared to Rs.52.61 Cr as on March 31, 2021 due to accretion of profits. Gearing of the firm stood below unity at 0.23 times as on March 31, 2022 (provisional) as against 0.25 times as on March 31, 2021, whereas, Total Outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 0.63 times as on March 31, 2022 (provisional) as against 0.72 times as on March 31, 2021. Moreover, the healthy debt protection metrics is marked by Interest Coverage Ratio (ICR) at 5.37 times as on March 31, 2022 (provisional) and Debt Service Coverage Ratio at 2.84 times as on March 31, 2022 (provisional). The Net Cash Accruals/Total Debt (NCA/TD) stood at 0.55 times as on March 31, 2022 (provisional). Acuité believes that the financial risk profile of the firm will continue to remain above average over the medium term, in absence of any major debt funded capex plans.

Weaknesses

- **Working capital intensive nature of operations**

The working capital management of the firm is intensive in nature characterized by high Gross Current Asset (GCA) of 395 days as on March 31, 2022 (provisional) as against 329 days as on March 31, 2021. The high GCA days is on account of unbilled revenue on construction contracts and high other current assets due to security deposits including earnest money deposit. The security deposits stood at Rs.40.96 Cr as on March 31, 2022 (provisional). The inventory period increased to 102 days March 31, 2022 (provisional) as against 26 days as on March 31, 2021 due to rise in the unbilled revenue by the end of FY2022. However, the debtor period stood comfortable at 14 days as on 31st March 2022 (provisional) as compared to 12 days as on 31st March 2021. Acuité believes that the working capital operations of the firm will remain almost at similar levels as evident from the high level of other current assets and unbilled revenue over the medium term.

- **Exposure to geographic and segmental concentration**

SOC is based in Chhattisgarh and executes projects only in that region. This leads the firm exposed to geographical concentration risk. Along with this, the order book of the firm is majorly comprised of road projects thus implying high segmental concentration.

Rating Sensitivities

- Deterioration in the operating income
- Elongation in the working capital cycle
- Sustenance of the capital structure
- Reduction in order flow

Material covenants

None

Liquidity Position: Adequate

The liquidity position of the firm is adequate marked by sufficient net cash accruals of Rs.6.87 Cr (provisional) in FY2022 as against long term debt repayment of Rs.1.40 Cr over the same period. The current ratio stood comfortable at 2.84 times (provisional) as on March 31, 2022 as compared to 2.52 times in FY2021. The unencumbered cash and bank balance stood at Rs.0.09 Cr (provisional) as on March 31, 2022. However, the working capital management of the firm is intensive in nature marked by high gross current asset (GCA) of 395 days as on March 31, 2022 (provisional) as against 329 days in the previous year. The firm's fund based bank limit utilization stood at 72 per cent over the six months ended June, 2022. Acuité believes that the liquidity of the firm is likely to remain adequate over the medium term on account of improving cash accruals.

Outlook: Negative

Acuité has revised the outlook to 'Negative' on account of continuous dip in the operating income of the firm and the working capital intensive operations. The rating may be 'downgraded' in case of further decline in the operating revenues, deterioration in the financial risk profile or further elongation in the working capital cycle. The outlook may be revised to 'Stable' in case SOC registers significant growth in its scale of operations.

Other Factors affecting Rating

None

Key Financials

| Particulars | Unit | FY 22 (Provisional) | FY 21 (Actual) |
|-------------------------------|---------|---------------------|----------------|
| Operating Income | Rs. Cr. | 52.46 | 69.51 |
| PAT | Rs. Cr. | 4.35 | 6.07 |
| PAT Margin | (%) | 8.29 | 8.74 |
| Total Debt/Tangible Net Worth | Times | 0.23 | 0.25 |
| PBDIT/Interest | Times | 5.37 | 5.58 |

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

CARE, vide its press release dated March 30, 2020 had denoted the rating of Sewasingh Oberoi and Co as 'CARE BBB/Stable/A3; ISSUER NOT COOPERATING'.

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Infrastructure Sector: <https://www.acuite.in/view-rating-criteria-51.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History

| Date | Name of Instruments/Facilities | Term | Amount (Rs. Cr) | Rating/Outlook |
|-------------|--------------------------------|------------|-----------------|--------------------------------|
| 29 Jul 2021 | Bank Guarantee | Short Term | 21.00 | ACUITE A3+ (Assigned) |
| | Cash Credit | Long Term | 2.00 | ACUITE BBB Stable (Assigned) |

Annexure - Details of instruments rated

| Lender's Name | ISIN | Facilities | Date Of Issuance | Coupon Rate | Maturity Date | Quantum (Rs. Cr.) | Rating |
|---------------------|----------------|----------------------|------------------|----------------|----------------|-------------------|---|
| State Bank of India | Not Applicable | Bank Guarantee (BLR) | Not Applicable | Not Applicable | Not Applicable | 21.00 | ACUITE A3+ Reaffirmed |
| State Bank of India | Not Applicable | Cash Credit | Not Applicable | Not Applicable | Not Applicable | 2.00 | ACUITE BBB Negative Reaffirmed Stable to Negative |

Contacts

| Analytical | Rating Desk |
|--|--|
| Pooja Ghosh Vice President-Rating Operations Tel: 022-49294041 pooja.ghosh@acuite.in Geeta Karira Analyst-Rating Operations Tel: 022-49294065 geeta.karira@acuite.in | Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in |

About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Ratings assigned by Acuité are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind, arising from the use of its ratings. Ratings assigned by Acuité are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.