

## Press Release

Sailaja Commercial Construction Private Limited

September 19, 2022



### Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	18.00	ACUITE BBB   Stable   Assigned	-
Bank Loan Ratings	24.35	-	ACUITE A3+   Reaffirmed
Bank Loan Ratings	4.00	ACUITE BBB   Stable   Reaffirmed	-
Bank Loan Ratings	5.10	-	ACUITE A3+   Assigned
<b>Total Outstanding Quantum (Rs. Cr)</b>	51.45	-	-
<b>Total Withdrawn Quantum (Rs. Cr)</b>	0.00	-	-

### Rating Rationale

Acuite has reaffirmed and assigned a 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)' to the Rs.51.45 crore bank facilities of Sailaja Commercial Construction Private Limited (SCCPL). The outlook is 'Stable'.

The rating on SCCPL is driven by the extensive experience of the management in the infrastructure industry and established market position along with strong association with reputed government clients. The rating also reflects the healthy financial risk profile and adequate liquidity position of the company. However, these strengths are partially offset by the working capital intensive nature of operation and fragmented nature of industry coupled with tender based business.

### About the Company

Sailaja Commercial Construction Private Limited (SCCPL) was incorporated in the year 2013 at Guwahati, Assam. SCCPL was formed by taking over the proprietorship business of M/s.Sailaja Commercial who was in the same line of business. The proprietorship business was converted into a private limited company. Currently, SCCPL is engaged in undertaking civil construction projects awarded by Assam Public Works Department (APWD) including PWD (Roads), PWD (Building), PWD (NH Works), PWD (NEC Works), PWD (ARIASP & RIDF), in the state of Assam. It primarily undertakes civil construction of roads, bridges, buildings, culverts, sewage etc.

### Analytical Approach

Acuite has considered standalone business and financial risk profile of SCCPL while arriving at

the rating.

## **Key Rating Drivers**

### **Strengths**

#### **Experienced management and long track record of operation-**

The company was incorporated in 2013 and the directors of the company Mr. Udaya Aditya Goswami and Mrs. Ankita Chaliha Goswami have two decades of experience in similar industry. The company has a long presence in this sector and has established a healthy relationship with customers for more than a decade. The timely execution of the projects has helped the company to improve its market presence in state of Assam. Acuité believes that the company will continue to benefit from its promoter's extensive industry experience and established relationship with customers over the medium term. Further, the company mainly caters directly to the government entity such as Assam Public Works Department (APWD) including PWD(Roads), PWD(Building), among others which will benefit the company to mitigate the counter party risk.

#### **Healthy scale of operation coupled with stable profit margins-**

The revenue of the company stood healthy at Rs.199.29 crore in FY2022 (Prov.) as compared to Rs.117.36 crore in the previous year. This improvement in revenue is on account of increase in project execution during the period backed by steady order flow from the various departments. Acuité believes the revenue of the company will be increase going forward based on the healthy unexecuted order book in hand.

Though the operating profitability margin of the company has declined during FY2022 (Prov.) but still stood comfortable at 10.44 per cent in FY2022 (Prov.) as compared to 12.76 per cent in the previous year. This decrease in operating profitability margin is on account of increase in the input cost for the new projects started during FY2022 along with the existing projects. Acuité believes that the profitability margin of the company will sustain at the same level backed by in-built price escalation clause that provides cushion for covering the increased input cost. Further, the contracts of the company with the govt. authorities are suitably guarded against the fluctuation in the raw material prices owing to the built - up price escalation clause. This helps the company from any large variation in the raw material prices, thus protecting the operating margins to a certain extent. The net profitability margin of the company stood healthy at 5.93 per cent in FY2022 (Prov.) as compared to 5.74 per cent in the previous year. Acuité believes the profitability margin of the company will be sustained at healthy levels over the medium term on account of availability of adequate price escalation clause with the counter party.

#### **Healthy financial risk profile-**

The financial risk profile of the company is marked by moderate net worth, low gearing and healthy debt protection metrics. The net worth of the company stood moderate at Rs.51.65 crore in FY 2022 (Prov.) as compared to Rs. 39.18 crore in FY2021. This improvement in networth is on account of retention of profit by the company during the period. Further, Acuité has also considered unsecured loan of Rs.14.66 crore as quasi equity as the same amount is subordinated with the bank debt. The gearing of the company stood low at 0.26 times as on March 31, 2022 (Prov.) when compared to 0.25 times as on March 31, 2021. Interest coverage ratio (ICR) of the company stood strong at 8.28 times in FY2022 (Prov.) as against 5.06 times in FY 2021. The debt service coverage ratio (DSCR) of the company stood healthy at 2.55 times in FY2022 (Prov.) as compared to 1.65 times in the previous year. The net cash accruals to total debt (NCA/TD) stood at 1.12 times in FY2022 (Prov.) as compared to 1.01 times in FY2021. Going forward, Acuité believes the financial risk profile of the company will improve on account of increase in net cash accruals and no major debt funded capex plan over the near term.

### **Weaknesses**

#### **Working capital intensive nature of operation**

The operation of the company is working capital intensive marked by moderate gross current

asset days of 137 days in FY2022 (Prov.) and in the previous year respectively. The inventory days of the company has improved to 26 days in FY2022 (Prov.) as compared to 64 days in the previous year. However, the debtor days of the company has increased to 51 days in FY2022 (Prov.) as compared to 06 days in the previous year though it is a year end phenomenon. Further, the GCA days is also emanates from the high other current asset of Rs.24.11 cr. in FY 2022 (Prov.), which mainly consists of balance with revenue authorities, TDS receivables, advance given to directors, security deposits among others.

### **Competitive and fragmented nature of industry coupled with tender based business**

The company is engaged as a civil contractor and the particular sector is marked by the presence of several mid to big size players. The company faces intense competition from the other players in the sectors. Risk becomes more pronounced as tendering is based on a minimum amount of bidding of contracts and hence the company has to make bid for such tenders on competitive prices; which may affect the profitability of the company. However, this risk is mitigated to an extent as the company is operating in this environment for the last twelve years.

### **Rating Sensitivities**

- Scaling up of operations while improving their profitability margin
- Timely execution of orders
- Further elongation in working capital management

### **Material covenants**

None

### **Liquidity Position Adequate**

The company has adequate liquidity marked by comfortable net cash accruals of Rs.14.78 crore as against Rs.4.24 crore long term debt obligations in FY2022 (Prov.). The cash accruals of the company are estimated to remain in the range of around Rs. 16.42 crore to Rs. 18.38 crore during 2023-24 as against Rs. 4.18 crore of long term debt obligations FY2023 and Rs.4.50 crore in FY2024 respectively. The current ratio of the company stood comfortable at 1.52 times in FY2022 (Prov.). The working capital intensive nature of the company is marked by moderate Gross Current Asset (GCA) days of 137 days in FY2022 (Prov.). The bank limit of the company has been ~77 percent utilized during the last six months ended in July 2022. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of comfortable cash accruals against long debt repayments over the medium term.

### **Outlook: Stable**

Acuité believes the company's outlook will remain 'Stable' over the medium term on account of experience of the promoters, long execution track record, healthy order book position and healthy financial risk profile. The outlook may be revised to 'Positive' in case the company registers significant growth in revenues while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in the company's revenues or profit margins, or in case of deterioration in the company's financial risk profile and liquidity position or delay in completion of its projects or further deterioration in its working capital cycle.

### **Other Factors affecting Rating**

None

### **Key Financials**

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	199.29	117.36
PAT	Rs. Cr.	11.82	6.73
PAT Margin	(%)	5.93	5.74
Total Debt/Tangible Net Worth	Times	0.26	0.25
PBDIT/Interest	Times	8.28	5.06

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

None

#### Any other information

None

#### Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.htm>
- Service Sector: <https://www.acuite.in/view-rating-criteria-50.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
13 Dec 2021	Bank Guarantee	Short Term	18.25	ACUITE A3+ (Assigned)
	Cash Credit	Long Term	1.00	ACUITE BBB   Stable (Assigned)
	Cash Credit	Long Term	3.00	ACUITE BBB   Stable (Assigned)
	Bank Guarantee	Short Term	6.10	ACUITE A3+ (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	6.10	ACUITE A3+   Reaffirmed
ICICI Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	18.25	ACUITE A3+   Reaffirmed
State Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	5.10	ACUITE A3+   Assigned
ICICI Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE BBB   Stable   Reaffirmed
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE BBB   Stable   Reaffirmed
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE BBB   Stable   Assigned
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BBB   Stable   Assigned

## Contacts

Analytical	Rating Desk
Pooja Ghosh Vice President-Rating Operations Tel: 022-49294041 <a href="mailto:pooja.ghosh@acuite.in">pooja.ghosh@acuite.in</a>  Abhishek Dey Senior Analyst-Rating Operations Tel: 022-49294065 <a href="mailto:abhishek.dey@acuite.in">abhishek.dey@acuite.in</a>	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 <a href="mailto:rating.desk@acuite.in">rating.desk@acuite.in</a>

### 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.

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