

Sarjan Infracon Private Limited

April 01, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	10.00 (Enhanced from 7.00)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	84.00	CARE BBB-; Stable / CARE A3 (Triple B Minus; Outlook: Stable/ A Three)	Reaffirmed
Long Term Bank Facilities*	-*	-	Withdrawn
Total Bank Facilities	94.00 (Rs. Ninety-Four Crore Only)		

Details of instruments/facilities in Annexure-1 *reclassified to LT bank facilities

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Sarjan Infracon Private Limited (SIPL) continues to derive strength from vast experience of its promoters in the construction industry with an established track record of operations in execution of mid-sized road, canal and other civil construction work and lower counterparty risk.

The ratings also take cognizance of improvement in its capital structure and debt coverage indicators during FY21 (FY refers to the period April 01 to March 31) and adequate liquidity.

The ratings, however, continue to remain constrained on account of SIPL's moderate scale of operations and profitability in an intensely competitive and fragmented construction sector with tender based nature of operations. The ratings are further constrained on account of low revenue visibility due to moderate order book with high geographical concentration.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Significant growth in total operating income (TOI) to over Rs.250 crore along with improvement in its PBILDT margin at 10% on a sustained basis.
- Receipt of new orders leading to improvement in the revenue visibility of at least 2.5 times of FY21 revenue.

Negative Factors- Factors that could lead to negative rating action/downgrade:

- De-growth in TOI below Rs.125 crore with reduced revenue visibility
- Deterioration in liquidity with increase in gross current asset days significantly over 200 or any major debt funded capex adversely affecting the debt coverage indicators

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters with established track record in road construction segment

The promoters of the company have an extensive experience in the construction industry with over three generation legacy in the business. Mr. Jayantilal Patel, the founding member of SIPL, has an experience of more than four decades in the construction industry from his family construction business i.e. M/s Bhavna Construction Company. Currently Mr. Jayantilal Patel looks after the overall business administration of SIPL while his son Mr. Dipak Patel, a Master's in Structural Engineering, having a decade of experience, heads the project department of the company.

Improvement in capital structure and debt coverage indicators

SIPL's overall gearing improved to 0.39x as on March 31, 2021 (1.20x as on March 31, 2020) on account of reduction in total debt led by scheduled repayment of equipment loans and mobilization advances along with accretion of profit to reserves.

Debt coverage indicators also improved marked by total debt to GCA of 1.25 years as on March 31, 2021 (3.32 years as on March 31, 2020). Interest coverage ratio improved to 5.47x in FY21 (4.01x in FY20) on account of lower interest expenses.

Liquidity: Adequate

SIPL's liquidity remains adequate marked sufficient cushion in cash accruals vis-à-vis debt repayment obligations, operating cycle at 41 days during FY21 (FY20: 46 days) and moderate reliance on fund-based facilities for working capital requirements marked by average utilisation at around 76% during the trailing 12 months ended February 2022. SIPL's gross current asset days improved to 122 days during FY21 (166 days in FY20). Further, it has also availed ad-hoc limit of Rs.2 crore in December 2021 for 90 days and of Rs.3 crore in February 2022 to aid its liquidity for timely execution of the contracts. Further, against fixed repayment obligation of Rs.2- 5 crore, SIPL is envisaged to generate GCA in the range of Rs.9.00 – 13.70 crore.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Key Rating Weaknesses

Moderate scale of operations and profitability

During FY21, SIPL's TOI remained stable at Rs.166.71 crore (FY20: Rs.173.23 crore). The marginal moderation in TOI is on account of Covid-19 induced lockdown in Q1FY21 (refers to the period April 01 to June 30), wherein execution of few projects were impacted. SIPL has a price escalation clause in all the contracts which protects against any unfavourable movement of raw material prices to a certain extent, because of which its PBILDT and PAT margin remained largely stable at 8.72% and 3.38% respectively during FY21 (FY20: 8.89% and 3.04% respectively).

During 11MFY22 (refers to the period April 01 to February 28), SIPL reported a TOI of Rs.100.75 crores.

Low order book position limiting revenue visibility

As on February 28, 2022, SIPL had a low order book of 130.28 crore, which translates into low orderbook/ TOI of 0.78 times limiting the revenue visibility of the company. The order book is envisaged to improve in near term as SIPL has been declared as the L-1 bidder for a contract amounting to Rs.99.88 crore. Further, the order book remains geographically concentrated in the state of Orissa (82% of the order book) followed by Madhya Pradesh (7%), Maharashtra (7%) and Punjab (3%). This increases the risk arising from any policy or geo-political changes in a particular region as well as exposure to risks related to delay in clearances. However, the counterparty risk remains low as the entire order book is awarded by government entities, including urban local bodies.

Fragmented nature of construction sector with tender-based nature of operations

SIPL is a mid-sized player operating in an intensely competitive construction industry with presence of large number of contractors. Furthermore, with low counterparty credit risk and a relatively stable payment track record of projects funded by government bodies and removal of bid-bond guarantee has resulted in intense competition. Moreover, aggressive bidding or delay in project progress due to unavailability of regulatory clearances are other external factors that affects the credit profile of industry players.

Analytical approach: Standalone

Applicable Criteria

[Policy on default recognition](#)

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[Rating Methodology – Construction Sector](#)

[Criteria for Short Term Instruments](#)

[Financial ratios – Non-Financial Sector](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

About the Company

SIPL is an Ahmedabad, Gujarat, based civil construction company engaged in the construction and maintenance work of roads, bridges and pavements. It is also involved in irrigation and airport projects by constructing allied works such as lining of canal, service road, pavement, runway and taxiway.

It was incorporated by Mr Jayantibhai Patel as a private limited company in Sep 2006 and is registered as "AA Class Contractor" (highest on the scale of AA to E) with Government of Gujarat (GoG) and "A class contractor" with Government of Madhya Pradesh and also possesses ISO 9001: 2000 certificate.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	28-02-2022 (Prov.)
Total operating income	173.23	166.71	100.75
PBILDT	15.40	14.54	NA
PAT	5.26	5.63	NA
Overall gearing (times)	1.20	0.39	NA
Interest coverage (times)	4.01	5.47	NA

A: Audited; Prov: Provisional; NA: Not Available

Status of non-cooperation with previous CRA:

- Acuite has put the rating assigned to the bank facilities of SIPL under issuer non-cooperation category on account of Acuite's inability to carry out a rating exercise in the absence of the requisite information from the company as per the press release dated February 11, 2022.
- ICRA has put the rating assigned to the bank facilities of SIPL under issuer non-cooperation category on account of ICRA's inability to carry out a rating exercise in the absence of the requisite information from the company as per the press release dated November 30, 2021.

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	10.00	CARE BBB-; Stable
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	84.00	CARE BBB-; Stable / CARE A3
Fund-based - LT-Bank Overdraft		-	-	-	0.00	Withdrawn

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Cash Credit	LT	10.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (06-Jan-21)	1)CARE BBB-; Stable (31-Mar-20) 2)CARE BBB-; Stable (04-Apr-19)	-
2	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	84.00	CARE BBB-; Stable / CARE A3	-	1)CARE BBB-; Stable / CARE A3 (06-Jan-21)	1)CARE BBB-; Stable / CARE A3 (31-Mar-20) 2)CARE BBB-; Stable / CARE A3 (04-Apr-19)	-
3	Fund-based - LT-Bank Overdraft	LT	-	-	-	1)CARE BBB-; Stable (06-Jan-21)	-	-

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable**Annexure 4: Complexity level of various instruments rated for this company**

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Bank Overdraft	Simple
2	Fund-based - LT-Cash Credit	Simple
3	Non-fund-based - LT/ ST-Bank Guarantee	Simple

Annexure 5: Bank Lender Details for this CompanyTo view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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