Sanjay Udyog Private Limited

October 31, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	38.00 (Enhanced from 7.25)	CARE BB+; Stable	Reaffirmed; Outlook revised from Positive
Long Term / Short Term Bank Facilities	57.00 (Enhanced from 22.75)	CARE BB+; Stable / CARE A4+	Reaffirmed; Outlook revised from Positive
Short Term Bank Facilities	5.00	CARE A4+	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of ratings assigned to the bank facilities of Sanjay Udyog Private Limited (SUPL) continue to remain constrained by risk of delay in project execution, leveraged capital structure and thin debt service coverage indicators. The ratings are also constrained by the capital intensive nature of business, high utilisation of working capital limits despite sanction of additional limits in the current financial year, regulatory risk in the mining sector, and competitive nature of industry due to tender-based contracts. Further, the outlook has been revised from 'Positive' to 'Stable' in view of moderation in profitability margins along with non-improvement in capital structure as envisaged.

The ratings, however, derive strength from long experience of the promoters in industry, healthy order book position, and improvement in scale of operation in FY24 albeit moderation in profitability margin. The ratings further considers reputed clientele leading to low counterparty risk albeit client concentration, large fleet of owned heavy equipment, and presence of escalation clause in contracts.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sustained growth in the scale of operations to ₹300 crore while maintaining existing margins on a sustained basis.
- Significant improvement in the capital structure of the company marked by overall gearing of less than 1.5x on a sustained basis.

Negative factors

- Drop in profitability with profit before interest, lease rentals, depreciation and taxation (PBILDT) margins less than 15% on a sustained basis.
- Moderation in the financial risk profile of the company on account of higher-than-expected debt-funded capex leading to deterioration in gearing above 3x on a sustained basis.

Analytical approach: Standalone.

Outlook: Stable.

The stable outlook on the long-term facilities is based on the expectation that the entity will continue to benefit from the extensive experience of the promoters and management in the industry which help the entity to improve its operating performance and profitability.

Detailed description of key rating drivers:

Key weaknesses

Risk of delay in project execution

SUPL's business is susceptible to financial loss arising out of delay in project execution or lower mining of coal, and there exists a penalty clause for delay/lower mining in contract execution. Although SUPL has been successful in building an experienced management team with strong project execution skills which has enabled the company to build satisfactory standing in the industry as indicated in the repeat orders, there has been instances of liquidated damage charges with charge of Rs 0.20 crore in

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

FY24 (In FY23: 0.50 crore). The same can be on account of absorption of moisture content in coal while transportation, theft of coal by the truck driver etc.

Capital intensive nature of business
The operation of the company is capital intensive in nature as the company has to continuously incur capex for procuring heavy earthmoving equipment (like Dumpers, Excavators, Bulldozers, etc.) and other mining equipment (like Compactor, Drillers, Cranes, etc.) for replacement purposes. The company has incurred ~Rs. 36 crores of capex during FY24 to increase its fleet size for executing large orders in hand and also for replacing older equipment.

Leveraged capital structure and thin debt service coverage indicators
Being in capital intensive industry, wherein the capex required for purchase of heavy equipment vehicles every year, the company needs to incur capex of around Rs. 30-40 crore every year resulting in higher debt levels. The entity's capital structure continue to remain leveraged, as marked by an overall gearing of 2.79x as on March, 31, 2024 (2.70x as on March, 31, 2023). The total debt of the company increased from Rs. 112.89 crore as on March 31, 2023 to Rs. 133.71 crore as on March 31, 2024 attributable to new term loans for equipment purchase and increased working capital borrowings to fund the elongated operating cycle. Debt coverage indicators stood stable, as marked by PBILDT interest coverage of 3.55x in FY24 (3.98x in FY23) and total debt to GCA (TD/GCA) of 3.6x in FY24 (2.71x in FY23). The capital structure and debt coverage indicators are expected to remain stable at current levels in the near to mid term given the regular capex requirement along with debt repayment.

Regulatory risk in the mining sector
The mining environment in India has been highly uncertain with respect to issues like illegal mining and risk attached to mining activities of its client due to sudden change in government policies. However, majority of the contract for SUPL is from public sector undertakings (PSUs) such as Coal India Limited’s subsidiaries, moderating regulatory risk to a large extent.

Competitive nature of industry due to tender-based contracts
In case of contracts with PSUs, the company has to participate in tenders for the contracts. Therefore, the business operations of the company are largely dependent on the number of tenders floated and the success rate of the company in winning those tenders. In addition, with the coal mining space becoming more competitive; bargaining power and pricing flexibility is limited.

Key strengths

Long experience of promoters in industry
Sanjay Khemka along with his brother, Ajay Kumar Khemka, are the founder promoters of SUPL. The promoters have experience of more than three decades in the coal transportation and mining activity. Sanjay Khemka is a graduate from Dhanbad with an experience of more than three decades in the mining industry and has been looking after the overall operations of the company. He is well supported by his brother, Ajay Kumar Khemka, a mechanical engineer by profession, with an experience of close to two decades, has expanded the company areas of logistics and raw material handling for power and steel plants. The promoters of the company are actively involved in day-to-day operations and also effectively supported by a second-tier management. They both manage the operations of the company with a team of experienced professionals.

Improvement in scale of operation albeit moderation in profitability margin
The total operating income of the company witnessed an annual growth of 23% during the period of FY24 resulting in total operating income of Rs. 300.11 crore in FY24 as against Rs. 243.99 crore in FY23. The revenue from mining services remained stable at Rs 137.45 crore as compared to Rs 134.75 crore in FY23, whereas the transportation services increased significantly to Rs 101.84 crores in FY24 (PY: Rs 56.17 crore). The PBILDT margin moderated to 17% in FY24 as compared to 21% in FY23, majorly attributable to increase in hiring of heavy equipment during the year for increased scale of operations (Equipment hiring charge in FY24 Rs 75.04 crore vis-à-vis Rs 26.19 crore in FY23). In line with PBILDT margins, PAT margin also moderated from 3.90% in FY23 to 2.01% in FY24. The margins are expected to remain stable and improve gradually with growing scale of operations.

Healthy order book position
SUPL’s order book position as March 31, 2024 stood at Rs 1,527 crore amounting to 5.09x of TOI in FY24. The orders comprised a mix of coal mining and also other activities such as loading & transportation, leasing of equipment, removal of Over Burden (OB), etc. The orders are mostly located in the eastern part of India- primarily in the states of Jharkhand and West Bengal, providing flexibility to the company to utilise its resources optimally let there be any slow moving/stalled projects. SUPL’s healthy order book position provides reasonable revenue visibility over the medium term.

Reputed clientele leading to low counterparty risk, albeit client concentration
SUPL has executed coal mining orders of reputed companies majorly PSUs in the last 3-4 years as reflected in the table showing break of the total revenue. The company has established strong relationship with its clients with satisfactory order execution track record substantiated by repeat orders awarded to the company. The current order book of the company (amounting to around

₹1,527 crore) also comprises reputed clients, namely, subsidiaries of Coal India Ltd, including Bharat Coking Coal Ltd and Northern Coalfields Ltd, Mahanadi coal fields, etc. which ensures timely receipt of receivable and thus mitigates the counterparty credit risk to a large extent.

Large fleet of heavy equipment
By virtue of SUPL being in operation for more than three decades, the company has established a large fleet of heavy equipment enabling execution of large-sized orders. The company carries out majority of its mining activities using its own heavy equipment, and over the years, it has established a significant fleet of such equipment which also enables it in execution of large-sized orders. The company has a set of around 406 heavy equipment as on Au 31, 2024 (385 equipment as on March 31, 2023).

Presence of escalation clause in contracts
The contracts mainly comprise income from excavation and evacuation services which are based on per ton of coal evacuated and run over the period of contract. The major cost for SUPL for such services is the high speed diesel (HSD) (Power & Fuel cost constituted ~45% of cost of sales of FY24 as against 57% in FY23) cost for plying the equipment. Furthermore, the cost of labour which is another major cost and has an escalation clause linked to WPI index. Majority of the contracts have escalation clause built into them.

Liquidity: Adequate
The liquidity position of the company is adequate marked by gross cash accruals of Rs 37.10 crore in FY24. This apart, SUPL has lien marked FD amounting Rs 18.51 crore. The company has debt repayment obligation of Rs 46.52 crore in FY25 against which it is expected to generate sufficient cash accruals.
The average working capital utilisation stood at 83% as August 31, 2024. The operating cycle days increased during FY24 due to higher receivable outstanding from mining activities during the year. However, going forward, with addition of coal transportation project from Mahanadi Coalfield Limited, the cash flow of the company is estimated to improve, which will in turn improve the working capital cycle. This apart, the company has enhanced its working capital limits from Rs. 7.25 crore to Rs. 37.50 crores (includes ad hoc for 3 months of Rs 5.00 crores) and Bank Guarantee limit to Rs 53.00 crores, which is 85% utilised as on August 30, 2024.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Financial Ratios – Non financial Sector
Service Sector Companies
Short Term Instruments

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Commodities	Metals & Mining	Diversified Metals	Diversified Metals

SUPL, incorporated in July 2009, is promoted by Sanjay Khemka and his brother, Ajay Kumar Khemka. SUPL started its operations from a proprietorship firm in 1993 which later got converted into a private limited company in 2009. Earlier till FY19, the company was mainly into transportation, however, gradually the company forayed into the business of providing coal mining services such as removal of overburden, extraction of coal, drilling, site levelling and grading. SUPL has been working for several public and private sector players, including Northern Coalfields Limited (NCL), Bharat Coking Coal Limited (BCCL), Dhansar Engineering Co Pvt Ltd (DECO), and Electrosteel steels Limited (ESL). The promoters have interest in other businesses like hospitality, auto dealership, and real estate.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)
Total operating income	243.99	300.11
PBILDT	51.69	51.18
PAT	9.50	6.02
Overall gearing (times)	2.70	2.79
Interest coverage (times)	3.98	3.55

A: Audited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not Applicable.

Any other information: Not Applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Working Capital Limits		-	-	-	38.00	CARE BB+; Stable
Fund-based - ST-Working Capital Limits		-	-	-	5.00	CARE A4+
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	57.00	CARE BB+; Stable / CARE A4+

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST	57.00	CARE BB+; Stable / CARE A4+	-	1)CARE BB+; Positive / CARE A4+ (27-Dec-23)	-	-
2	Fund-based - LT-Working Capital Limits	LT	38.00	CARE BB+; Stable	-	1)CARE BB+; Positive (27-Dec-23)	-	-
3	Fund-based - ST-Working Capital Limits	ST	5.00	CARE A4+				

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not Applicable.

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Working Capital Limits	Simple
2	Fund-based - ST-Working Capital Limits	Simple
3	Non-fund-based - LT/ ST-Bank Guarantee	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

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

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About us:
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