

Kaushal Sharma

December 03, 2024

Facilities	Amount (₹ crore)	Ratings ¹	Rating Action
Long-term bank facilities	10.01 (Reduced from 20.77)	CARE BB-; Stable	Reaffirmed
Long-term / Short-term bank facilities	30.44 (Enhanced from 20.00)	CARE BB-; Stable / CARE A4	Reaffirmed

Details of facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to bank facilities of M/s Kaushal Sharma continues to be constrained by its modest scale of operations with moderation in financial performance in FY24 (refers to the period April 1 to March 31) owing to delayed executions, its constitution as a proprietorship firm, volatility associated with fluctuation in input prices, working capital intensive nature of operations and presence in a highly competitive industry.

The ratings continue to derive comfort from experienced proprietor, modest order book position of Rs.486 crore as on October 31, 2024, and satisfactory capital structure & debt protection metrics.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in liquidity position.
- Total operating income above Rs 200 crore while maintaining current operating margins leading to improved cash accruals.

Negative factors

- Decline in TOI below Rs 100 crore.
- Decline in profitability below current levels on sustained basis.
- Deterioration in the capital structure with overall gearing beyond 1.00x, owing to capital withdrawal by the proprietor.

Analytical approach: Standalone

Outlook: Stable

Stable outlook reflects the ability of the firm to sustain its operational performance on back of a modest order book position whilst maintaining a modest financial risk profile.

Detailed description of key rating drivers:

Key weaknesses

Moderation in financial performance in FY24: M/s Kaushal Sharma is a modest sized player in the construction industry with TOI of Rs 118.03 crore in FY24 (PY: Rs 151.94 crore). The degrowth was largely owing to the projects pertaining to Amrit Bharat Station Scheme, wherein the firm expected to book around Rs 100 crore in revenues in FY24, the same got delayed due to delay in clearance from department. As of 7MFY25, the firm has booked around Rs 48 crore of revenues.

The firm's operating profitability exhibited a stable trend with PBILDT margin ranging between 12-14% in the past three years ended FY24. Operating profit margin witnessed improvement from 11.76% in FY23 to 12.37% in FY24. PAT margin stood modest on account of moderate interest and depreciation costs.

The firm enters back-to-back orders and subcontract part of the works as per requirement. In FY24, subcontracting expenses as a percent of cost of sales has reduced significantly and stood at around 9% (30% in FY23), the moderation was largely owing to low work order in hand.

Constitution as a proprietorship entity: Kaushal Sharma, being a proprietorship entity, is exposed to inherent risk of the proprietor capital being withdrawn at time of personal contingency and entity being dissolved upon the death/insolvency of the proprietor. Furthermore, proprietorship entities have restricted access to external borrowing as credit worthiness of proprietor would be the key factors affecting credit decision for the lenders. In FY24, the proprietor withdrew Rs 0.84 crore as against Rs. 1.27 crore withdrawal in FY23.

Volatility associated with fluctuations in input prices: The major input materials for the entity are bolder, bitumen, cement, TMT bar, bricks, sand etc. the prices of which are volatile. Further, majority of the earlier order book comprised of orders from PWD (Public Works Department) and RWD (Rural Works Department), which do not carry escalation clause leading to non-passing of increase in input prices, putting stress on operating margins whereas orders from National Highways (NH), carry escalation

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

clause. In the current order book, the proportion of contracts under National Highways is larger than state projects, largely maintaining margins. This apart, any increase in labour prices will also impact its profitability being present in a highly labour-intensive industry.

Working capital intensive nature of business: The operations of the entity remained working capital intensive, which is an inherent characteristic of the construction industry. The average inventory period remained comfortable at 12 days, whilst the collection period (including retention money) stood at 51 days as of FY24. The collection cycle is also comfortable, as post raising of bill, the money is received within 1 month against PWD projects and within a week in NH projects. As articulated by management, the firm is focusing on getting orders for NH projects due to faster realization.

However, the operating cycle stands negative on account of stretched creditors days which stood at 86 days in FY24 as against 73 days in FY23. Many of the creditors as of FY24, which was around Rs 20.36 crore constitutes payment towards subcontractors and diesel agencies. The stretch in creditor cycle is because, after the bill is raised, until the firm receives the money for the projects against which the party was assigned the subcontract work, the firm doesn't pay off the party. Further, it is the responsibility of the subcontractor to liaison with the department for release of payment after the bill is raised.

Presence in a highly fragmented and competitive construction industry: The firm operates in the intensely competitive construction industry wherein projects are awarded based on relevant experience of the bidder, financial capability, and most attractive bid price. The high competition in the construction industry is due to the presence of large number of small and medium players resulting in aggressive bidding which exerts pressure on the margins. However, the firm has rich experience, long standing track record in the construction industry and cordial relations with its clients' which fares well against the peers in the industry.

Key strengths

Experienced Proprietor: M/S Kaushal Sharma started its business from the year 2006 and thus has satisfactory track record of operations. It is Class 'I' entity managed by Mr. Kaushal Sharma (Proprietor) who has a long experience in similar line of business.

Modest order book position: The firm has a modest order book position of Rs.486.36 crore as on Oct 31, 2024, which is equivalent to 4.12 times of the revenue for FY24. Out of the above, orders amounting to Rs.380.05 crore are in initial stages of execution. Of the outstanding order book, the top three orders comprise around 55%. Furthermore, orders amounting to around Rs 100 crore under the Amrit Bharat Station Scheme has seen significant delays leading to blockage of capital. Apart from the same, the firm is also yet to receive around Rs 10-15 crore of billables for the completed projects under Jal Jeevan Mission. However, the firm is hopeful to receive the blocked capital by this fiscal and also start of work under the Amrit Bharat Station Scheme.

The firm's customers generally comprise of government agencies like PWD, RWD, NHAI, Indian railways. Being associated with reputed government agencies, the same ensures steady flow of income with minimal default risk. Furthermore, the firm has major part of its operations in Assam and Arunachal Pradesh, Nagaland, with only one order being executed in Chandigarh, which is completed.

Satisfactory capital structure and debt coverage indicators: The capital structure marked by overall gearing for the firm stood satisfactory at 0.60x as on March 31, 2024, as against 0.71x as of March 31, 2023, on back of repayment of instalments towards equipment loans. The net worth of the firm also remained modest at Rs 52.67 crore as on March 31, 2024, as against Rs 51.84 crore as on March 31, 2023. The debt structure of the firm comprises of Equipment loans, WC borrowings and unsecured loans.

The debt coverage indicators marked by total debt to GCA ratio and interest coverage ratio remained modest at 3.19x and 2.86x as of March 31, 2024, as against 3.05x and 3.85x as of March 31, 2023, respectively.

Liquidity: Stretched

Liquidity is stretched marked by higher utilisation of both fund and non-fund-based facilities. The fund-based working capital limit utilisation stood at around 90%-95% during the last 12 months period ended October 2024, as confirmed by the lenders while the utilisation of non-fund-based limit in the form of BG stood at 94% as on October 31, 2024.

In FY25, the firm has term debt repayment obligation of around Rs 15.13 crore against which it is expected to generate sufficient cash accruals.

The firm had deposits worth Rs 20.35 crore as of Mar 31, 2024, and around Rs 31 crore as of October 31, 2024 which have been extended in lieu of Bank Guarantee for certain projects and as margin money towards usage of sanctioned non-fund-based limits.

Applicable criteria

[Definition of Default](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

[Financial Ratios – Non financial Sector](#)

[Construction](#)

[Short Term Instruments](#)
About the company and industry
Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Industrials	Construction	Construction	Civil Construction

M/s Kaushal Sharma was established in the year 2006 and since its inception, the entity has been engaged in civil construction business in the segment like bridges and roads. Further, the entity is also classified as class 'I (A)' contractor in civil (B&R) under the department of PWD Government of Assam. Class 'I' contractor can bid for all types and higher value of contracts of Public Works Department (PWD) in Assam. The entity is also engaged in contractor business with PWD Government of Arunachal Pradesh and RWD Government of Arunachal Pradesh. Mr. Kaushal Sharma (Proprietor) has almost two decades of experience in civil construction industry. He looks after the day-to-day operations of the entity along with other technical and non-technical professionals who are having long experience in this industry.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	7MFY25 (UA)
Total operating income	151.94	118.03	48.26
PBILDT	17.87	14.60	-
PAT	2.99	1.67	-
Overall gearing (times)	0.71	0.60	-
Interest coverage (times)	3.85	2.86	-

A: Audited; UA: Unaudited; 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-Cash Credit		-	-	-	10.00	CARE BB-; Stable
Fund-based - LT-Term Loan*		-	-	October 2024	0.01	CARE BB-; Stable
Non-fund-based - LT/ST-Bank Guarantee		-	-	-	30.44	CARE BB-; Stable / CARE A4

*Rating continues in absence of No Due Certificate.

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	Fund-based - LT-Cash Credit	LT	10.00	CARE BB-; Stable	-	1)CARE BB-; Stable (20-Dec-23) 2)CARE B; Stable; ISSUER NOT COOPERATING* (18-Aug-23)	1)CARE B+; Stable; ISSUER NOT COOPERATING* (26-May-22)	-
2	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST	30.44	CARE BB-; Stable / CARE A4	-	1)CARE BB-; Stable / CARE A4 (20-Dec-23)	-	-
3	Fund-based - LT-Term Loan**	LT	0.01	CARE BB-; Stable	-	1)CARE BB-; Stable (20-Dec-23)	-	-

*Issuer did not cooperate; based on best available information.

**Rating continues in absence of No Dues Certificate.

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-Cash Credit	Simple
2	Fund-based - LT-Term Loan	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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