

## SK. Samir Ali

July 12, 2018

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term Bank Facilities	8.00	CARE BB-; Stable (Double B Minus; Outlook: Stable)	Assigned
<b>Total</b>	<b>8.00</b> <b>(Rupees Eight crore only)</b>		

*Details of facilities in Annexure-1*

#### Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Sk. Samir Ali (SSA) is constrained by its constitution as a proprietorship entity, small size of operations with low profitability margin, risk associated with participating in tenders and intense competition in the industry, working capital intense nature of business, volatility associated with fluctuation in input prices and low order book position. However, the aforesaid constraints are partially offset by its experienced management and long track record of operations and satisfactory leverage ratios with moderate debt coverage indicators.

Going forward, ability to increase its order book position, scale of operation, ability to execute orders within stipulated time period and ability to manage working capital effectively are the key rating sensitivities.

#### Detailed description of the key rating drivers

##### Key Rating Strengths

##### *Experienced management & long track record of operations*

Sk. Samir Ali started its business from the year 1988 and thus has long track record of operations. It is a professionally managed Class 'I' entity managed by Mr. Sk. Samir Ali (Proprietor) who has a long experience in similar line of business. He is ably supported by a team of experienced professionals look after the day to day activities of business.

##### *Satisfactory leverage ratios with moderate debt coverage indicators*

Capital structure of the entity remained satisfactory marked by overall gearing ratio of 0.90x as on March 31, 2017. The overall gearing ratio improved gradually over the last three account closing dates mainly on account of regular introduction of capital by the proprietor. Moreover, the debt coverage indicators remained moderate marked by interest coverage ratio of 1.48x in FY17.

##### Key Rating Weaknesses

##### *Constitution as a proprietorship entity*

Sk. Samir Ali, being a proprietorship entity, is exposed to inherent risk of the proprietor capital being withdrawn at time of personal contingency and entity being dissolved upon the death/insolvency of the proprietor.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.

***Small size of operation with moderate profitability margin:*** Sk. Samir Ali is a small player in construction industry with a PAT of Rs.0.31 crore on total operating income of Rs.30.18 crore in FY17. Capital base of the entity was Rs.6.87 crore as on March 31, 2017. The small size restricts the financial flexibility of the entity in terms of stress and deprives it from

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

benefits of economies of scale. Due to its small scale of operations, the absolute profit levels of the entity also remained low. The profitability margins also remained low marked by PBILDT and PAT margins of 4.08% and 1.03% respectively. Further, the entity has booked revenue of Rs.17.51 crore during 9MFY18.

***Risk associated with participating in tenders and intense competition in the industry***

The entity has to bid for the contracts based on tenders opened by the various governments and public sector units. Upon successful technical evaluation of various bidders, the lowest bid is awarded the contract. The entity receives projects which majorly are of a short to medium tenure (i.e. to be completed within maximum period of one to two years). Furthermore, orders are generally tender driven floated by government units indicating a risk of non-receipt of contract in a competitive industry. The outlook of construction sector appears challenging in view of slow execution of the existing order book in view of hindrances related to land acquisition, obtaining requisite clearances, labour shortage and liquidity issues with the clients, etc. Additionally, the sector is plagued with elongated working capital cycle leading to increase in debt level of construction companies.

***Working capital intensive nature of business***

The operations of the entity remained working capital intensive as the entity executes orders mainly for public sector units and government departments. The average collection period remained on the higher side during FY17 as the payment comes around four months from the date of bill raised. Due to its working capital intensive nature of operations, the entity stretches its payments to suppliers for around one month. Accordingly, the average utilisation of working capital was on the higher side at around 95% during last 12 months ended December 2017.

***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 the orders executed by the entity does not contain price escalation clause on the orders. This apart, any increase in labour prices will also impact its profitability being present in a highly labour intensive industry.

***Low order book position of the entity***

Sk. Samir Ali has low order book position of Rs.8.61 crore (which is 0.29x of FY17 turnover) as on January 30, 2018, which is expected to be completed by June 2018.

**Analytical approach:** Standalone

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

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

**About the Entity**

Sk. Samir Ali was established in the year 1988 with its office located at 1/E, Ibrahim Road, Kolkata-700023. Since its inception, the entity has been engaged in civil construction business in the segment like bridges and buildings. Further, the entity is also classified as class 'I (A)' contractor in civil (B&R) under the department of PWD Government of West Bengal. Class 'I' contractor can bid for all types and higher value of contracts of Public Works Department (PWD) in West Bengal. The entity is also engaged in contractor business with Department of Women and Social welfare, Government of West Bengal Ministry of Health & Family Welfare, Government of West Bengal and Howrah Zila Parishad.

Sk. Samir Ali (Proprietor) has more than a decade 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 (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	18.03	30.18
PBILD	0.97	1.23
PAT	0.28	0.31
Overall gearing (times)	1.10	0.90
Interest coverage (times)	1.68	1.48

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

**Any other information:** Not applicable

**Rating History (Last three years):** Please refer Annexure-2

*CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.*

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**Annexure-1: Details of Instruments/Facilities**

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	8.00	CARE BB-; Stable

**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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	8.00	CARE BB-; Stable	-	-	-	-

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