

December 02, 2022

Som Projects Pvt. Ltd.: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based/ Cash credit	27.0	31.30	[ICRA]BBB(Stable); reaffirmed
Long-term – Fund-based/ Term loan	3.60	3.60	[ICRA]BBB(Stable); reaffirmed
Short term – Non-fund based/ Bank guarantee	170.25	173.95	[ICRA]A3+; reaffirmed
Long-term/ Short-term – Unallocated	24.15	16.15	[ICRA]BBB(Stable)/[ICRA]A3+; reaffirmed
Total	225.00	225.00	

*Instrument details are provided in Annexure-I

Rationale

The reaffirmation of ratings takes into account Som Projects Private Limited's (SPPL) comfortable adjusted order book position of Rs. 1,196.5 crore as on September 30, 2022, which is ~4 times of the operating income (OI) of FY2022, providing medium-term revenue visibility, and its reputed clientele comprising public sector entities. The ratings continue to draw comfort from the company's healthy financial risk profile with a conservative capital structure and comfortable debt coverage indicators as reflected in interest coverage of 5.9 times in FY2022 and TOL/TNW of 0.91 times as on March 31, 2022. It has generated a revenue of around Rs. 140 crore in 6M FY2023 and is expected to generate total revenues within Rs. 320-370 crore in FY2023, supported by the sizeable order book position. The company's operating profitability is likely to remain stable, which along with increased scale will provide healthy cash accruals and support its coverage metrics. This apart, the ratings derive strength from the extensive experience of the promoters in the construction sector.

The ratings takes into account the company's moderate scale of operations, though it witnessed an improvement in its operating income (OI) in FY2022, with a recovery from the slow down caused by the pandemic. Further, better absorption of overheads led to a marginal improvement in operating margins to 9.42% in FY2022 from 8.83% in FY2021. ICRA has considered the significant advances to sister concerns/Group companies and plans of investment in a UK-based subsidiary, which if sizeable, could impact its liquidity position. The ratings are further constrained by the execution risk associated with the construction contracts, given the concentrated order book position with top five projects accounting for ~40% of the order, and ~62% of orders are in the nascent stages of execution (less than 20% progress). The ratings are constrained by the cyclicity inherent in the construction industry and intense competition in the tender-based contract award system, which could put pressure on its ability to secure new contracts, while maintaining the profitability. The ratings also note the company's exposure to sizeable contingent liabilities in the form of bank guarantees (BGs), mainly for contractual performance, retention money, mobilisation advance and security deposits. Nonetheless, ICRA draws comfort from SPPL's execution track record and absence of invocation of guarantees in the past.

The Stable outlook on the long-term rating reflects ICRA's opinion that SPPL will continue to benefit from its favourable operational track record, its reputed clientele and its healthy order book position.

Key rating drivers and their description

Credit strengths

Sizeable order book position and healthy medium-term revenue visibility – SPPL has a sizeable pending adjusted¹ order book of Rs. 1,196.5 crore as on September 30, 2022, which is ~4.04 times of its OI in FY2022 and provides healthy medium-term revenue visibility. The current order book comprises orders from the public sector entities with low counterparty credit risk viz. Military Engineering Services (MES), Delhi Development Authority (DDA), Nuclear Power Corporation of India Limited (NPCIL), Public Works Department (PWD) of various states, Bhabha Atomic Research Centre (BARC), etc. The company has long experience and relationships with these clients over the years.

Comfortable financial risk profile and healthy coverage metrics – SPPL's dependence on external borrowings has remained limited and comprises working capital borrowings of Rs. 27.5 crore, mobilisation advance loan of Rs. 15.18 crore and Rs. 6.03 crore of term loans as on September 30, 2022. Its working capital intensity remained moderate at 24.6% for FY2022, owing to high inventory and low creditors. These factors resulted in a comfortable financial risk profile with a gearing of 0.5 times and TOL/TNW of 0.91 times as on March 31, 2022. The debt coverage indicators remained healthy with interest coverage of 5.94 times in FY2022. The company has generated revenue of approx. Rs. 139 crore in 6M FY2022 and is expected to generate total revenues in the range of Rs. 320-370 crore in FY2022, supported by the healthy order book position. Its operating profitability is likely to remain stable, which along with increased scale will provide healthy cash accruals and support its coverage metrics.

Experience of promoters in construction industry – With over three decades of experience in the construction industry, SPPL's promoters have established relationships with clients such as MES, PWD, HITES, DDA, BARC and others. The company has experience in executing projects in various segments such as residential, commercial, industrial, educational, hospital and others. Successful execution of the projects has helped it in getting large-sized orders from clients.

Credit challenges

Moderate scale of operations – The company's scale of operations continues to remain moderate. However, SPPL's OI improved by 22.4% to Rs. 296.1 crore in FY2022 from Rs. 242 crore in FY2021 due to healthy execution in FY2022 and rebound from pandemic-led lockdown impacting order execution in FY2021. The reduction in dependence on sub-contracting charges and better absorption of overheads led to improved operating margins of 9.42% in FY2022 from 8.83% in FY2021. The company has a strong adjusted order book position of Rs. 1,196.5 crore as on September 30, 2022, which provides healthy revenue visibility.

Sizeable exposure towards loans/ advances to Group companies/ related parties – The company has outstanding exposure towards loans and advances to related parties of Rs. 27.9 crore as on March 31, 2022 towards acquisition of a land, material advances and advances towards contract works. SPPL has also extended unsecured loans repayable over a period of five years to its 100% subsidiary Som Projects UK Limited and anticipates advancing approx. Rs. 8-10 crore of further unsecured loans in the near term for funding the initial business operations of the company established overseas.

Concentrated order book and execution risks – The company's order book remains exposed to segment concentration risk with majority orders in the building/civil construction. It faces project concentration risk as the top five projects accounted for ~39% of order book and top five customers occupied ~70% of the order book as on September 30, 2022. SPPL remains exposed to execution risks associated with the contracts, as ~62% of orders are in the nascent stage with less than 20% progress, and the largest project constituting ~11.3% of the pending order book is yet to start execution as on September 30, 2022.

¹ Adjusted order book represents order book adjusted for order from HITES worth Rs. 137.1 crore, which has been withdrawn/ cancelled owing to some clearance issues.

Competitive nature of industry and sizeable non-fund based exposure – SPPL is exposed to the cyclical nature inherent in the construction industry and intense competition in the tender-based contract award system, resulting in volatility in revenues and pressure on margins. However, its long presence and established relationship with the clients provide comfort. Most of the contracts have a provision for price variation of key raw materials such as cement and steel, which protects the profitability to an extent. It is exposed to sizeable contingent liabilities in the form of BGs (~Rs. 138 crore as on September 30, 2022), mainly towards performance guarantee, retention money, mobilisation advance and security deposits. Nonetheless, ICRA draws comfort from SPPL’s healthy execution track record and no invocation of guarantees in the past.

Liquidity position: Adequate

The cash flow from operations are expected to remain adequate to meet its debt servicing obligations. This apart, availability of free cash and bank balances of Rs. 3.15 crore and unutilised fund-based limits of Rs. 3.8 crore as on September 30, 2022 provides comfort. Additionally, SPPL enjoys flexibility through the provision to avail mobilisation advances and realise the retention money against BGs.

Rating sensitivities

Positive factors – Increase in scale of operations and profitability, along with sustenance of healthy order book position, resulting in improvement in credit metrics could lead to a rating upgrade.

Negative factors – Significant delays in project execution, leading to a decline in its scale and operating profitability, or any sizeable debt-funded capital expenditure or any considerable loans and advances to Group companies, or a sustained increase in working capital intensity impacting its liquidity, leverage, and coverage metrics, could put pressure on the ratings. Specific credit metrics that could lead to a rating downgrade includes TOL/TNW increasing over 1.5 times on a consistent basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Construction Entities Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	Consolidated

About the company

Incorporated in 2005, SPPL is promoted by Mr. Som Prakash Garg and Mr. Sanjay Goyal. The company began its operations primarily by undertaking tenders floated by Ludhiana Cantonment, MES. Thereafter, it started bidding for projects by MES in Punjab and gradually across the country. Since then, it has executed development projects such as schools, hospitals, roads, residential flats, office buildings and bridges. At present, SPPL is enlisted with various Central and state government departments.

Key financial indicators (audited)

	FY2021	FY2022
Operating income	242.02	296.12
PAT	10.67	14.68
OPBDIT/OI	8.83%	9.42%
PAT/OI	4.41%	4.96%
Total outside liabilities/Tangible net worth (times)	0.97	0.91
Total debt/OPBDIT (times)	1.80	1.76
Interest coverage (times)	4.90	5.94

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding as on Sep 30, 2022 (Rs. crore)	Date & Rating	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	
				Dec 02, 2022	Sep 29, 2021	July 21, 2020	-	
1 Fund-based/ Cash credit	Long-term	31.30	-	[ICRA]BBB(Stable)	[ICRA]BBB(Stable)	[ICRA]BBB(Stable)	-	
2 Non-fund based - BG	Short-term	173.95	-	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	-	
3 Term loan	Long-term	3.60	3.27	[ICRA]BBB(Stable)	[ICRA]BBB(Stable)	-	-	
4 Unallocated	Long/Short term	16.15	-	[ICRA]BBB(Stable)/ [ICRA] A3+	[ICRA]BBB(Stable)/ [ICRA] A3+	[ICRA] BBB(Stable)/ [ICRA] A3+	-	

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based facilities	Simple
Non-fund based facilities	Very Simple
Term loan	Simple
Unallocated	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based/ Cash credit	-	-	-	31.30	[ICRA]BBB(Stable)
NA	Non-fund based – Bank guarantee	-	-	-	173.95	[ICRA]A3+
NA	Term loan	March 2021	-	March 2026	3.60	[ICRA]BBB(Stable)
NA	Unallocated	-	-	-	16.15	[ICRA]BBB(Stable)/ [ICRA]A3+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Company Name	SPPL Ownership	Consolidation Approach
Som Projects UK Limited	100.00%	Full Consolidation
Som VCL JV	67.00%	Full Consolidation

Source: Company, ICRA Research

ANALYST CONTACTS

Rajeshwar Burla

+91 40 4067 6527

rajeshwar.burla@icraindia.com

Ashish Modani

+91 20 6606 9912

ashish.modani@icraindia.com

Abhishek Gupta

+91 124 4545 863

abhishek.gupta@icraindia.com

Mrinal Jain

91 124 4545 845

mrinal.jain@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401

jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



© Copyright, 2022 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.