May 21, 2024

SCG Contracts India Private Limited: Ratings reaffirmed; outlook revised to Positive and rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Cash credit	5.00	8.00	[ICRA]BB+ reaffirmed/ assigned; Outlook revised to Positive from Stable
Long-term/ Short-term – Non-fund based – Bank guarantee	35.00	35.00	[ICRA]BB+/ [ICRA]A4+ reaffirmed; Outlook revised to Positive from Stable
Long-term/ Short-term – Unallocated	0.00	2.00	[ICRA]BB+ (Positive)/ [ICRA]A4+; assigned
Total	**40.00**	**45.00**	

**Instrument details are provided in Annexure-I*

Rationale

The revision in outlook to Positive reflects ICRA's expectation of a sustained improvement in SCG Contracts India Private Limited's (SCIPL) credit profile going forward, supported by expected ramp-up in execution and consequent impact on scale of operations and the likely improvement in its working capital intensity and liquidity position. SCIPL's performance has recovered handsomely over the last two fiscals with operating income (OI) and operating profits of Rs. 170.9 crore and Rs. 8.5 crore, respectively, in FY2024, compared to an OI of Rs. 51.2 crore (-36% YoY) and operating losses in FY2022. It reported an order book (OB) of ~Rs. 350 crore as on May 07, 2024 (against ~Rs. 222 crore as of March 2023), which provides healthy revenue visibility, given the project tenor of 12-18 months. The company prepaid almost the entire long-term debt on its books in FY2024 from the monetisation proceeds from a land parcel, leading to reduction in overall bank borrowings to Rs. 8.5 crore as on March 31, 2024 from Rs. 14.5 crore as on March 31, 2023. This, coupled with higher operating profits, led to YoY improvement in its leverage and coverage metrices. The ratings continue to derive comfort from the company's strong and reputed clientele (which lowers counterparty credit risk), its experienced promoters and long track record in interior works.

The ratings, however, remain constrained by its modest scale of operations with volatility in revenues and low profit margins. Notwithstanding the sequential improvement in profitability, the operating margins remain modest at 5.0% in FY2024. The company is vulnerable to execution risks associated with contracts (with nearly 60% of the orders in nascent stages of execution), concentration of order book on a few projects (top 5 orders comprise 76% of the OB), and intense competition in the civil construction and interior work segment, which constrains its pricing flexibility and profitability. It also has sizeable contingent liabilities in the form of bank guarantees, mainly for contractual performance, earnest money deposit, mobilisation advance and security deposits. Nonetheless, ICRA draws comfort from SCIPL's long presence and established relationship with clients, healthy execution track record and no invocation of guarantees in the past. Even as the working capital intensity, as reflected in NWC/OI, improved YoY in FY2024 (from ~25% in FY2023 to ~16%), given the increasing scale of operations, SCIPL's ability to judiciously manage its working capital remains important from the credit perspective. While the liquidity is currently adequate, timely enhancement of bank lines remains crucial for the company to support/sustain its business growth.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters and established relationship with clients – SCIPL's promoters have around four decades of experience in the construction business and specialise mainly in interior and finishing work. Over the years, the promoters have established strong relationships with its clients, which has helped the company in getting repeat business. Its clientele comprises strong and reputed players like Lemon Tree Hotels Limited, Indian Hotels Limited, Haldiram Snacks Private Limited, to name a few, which lowers the counterparty credit risk.

Low leverage and healthy debt coverage indicators – With pre-payment of debt in FY2024 (out of the monetisation of land parcel), the overall external debt reduced to Rs. 8.5 crore as on March 31, 2024 from Rs. 14.5 crore as on March 31, 2023. This led to improvement in leverage (TOL/TNW of 0.5 times as on March 31, 2024 from 1.1 times in March 31, 2023) and coverage metrices (ICR at 9.4 times in FY2024 Vs. 6.2 times in FY2023). The company's capital structure has remained comfortable over the years due to limited capex requirement and plough back of profits. With marginal projected capex requirement, the debt levels and the leverage are likely to remain comfortable over the medium term.

Healthy order book providing revenue visibility – The order book position has improved to ~Rs. 350 crore as on May 07, 2024 from Rs. 222.6 crore as on March 31, 2023, translating into OB/OI of 2 times based on FY2024 provisional revenues, which provides medium-term revenue visibility.

Credit challenges

High working capital intensity – The company's working capital intensity has remained high, as reflected in NWC/OI ranging within 25%-40% over FY2019-FY2023. This was driven by elongated debtors and/or high unbilled revenues. While the same has improved to 16% in FY2024, with faster collection of receivables and efficient inventory management, the company's ability to sustain the same at comfortable levels, given the scale-up in operations, remains a key monitorable.

Moderate scale of operations and profitability – The scale of operations remain moderate despite being in the business for over two decades. Short-term contracts with volatile order inflows in the past had impacted its turnover. While its OI grew to Rs. 171 crore in FY2024 from Rs. 84 crore in FY2023, the sustainability of the same remains to be seen. The construction industry is highly competitive and fragmented with presence of numerous small as well as large players, impacting the pricing flexibility and profitability of players like SCIPL. This is also reflected in thin operating profitability margins (OPM) of SCIPL, which declined to around 5% in FY2024 (Vs. 5.4% in FY2023) from nearly 10% in FY2018-FY2019. Going forward, the company's ability to improve its margins remains a key rating monitorable.

Exposed to execution and sector related risks – SCIPL is exposed to higher execution risk with ~63% of the projects in the current order book in the early execution stage (<20% execution). Further, the order book is concentrated as the top five projects contributed 76% to the total pending order book as on May 07, 2024. In the past, the company faced issues of cancellation/deferment of the ongoing contracts, which remains a risk. Further, as inherent to the construction industry, SCIPL is exposed to cyclicality and intense competition in the tender-based contract award system, resulting in risk of volatility in order inflows, revenues, and pressure on profit margins. It also has sizeable contingent liabilities in the form of bank guarantees, mainly for contractual performance, earnest money deposit, mobilisation advance and security deposits. Nonetheless, ICRA draws comfort from the company's long presence and established relationship with clients, healthy execution track record and no invocation of guarantees in the past.

Liquidity position: Adequate

The estimated cash flow from operations is expected to remain adequate to meet its debt repayment obligations. The liquidity is supported by no major term debt on books, limited debt-funded capex plans and cushion available in the form of free cash balance (Rs. 1.5 crore) and unutilised working capital limits (Rs. 2 crore) as on April 30, 2024. The average limit utilised remained at 73% and 66% for fund-based and non-fund based facilities for the twelve-month period ending March 31, 2024. While the sanction limits remain adequate currently, ICRA notes that enhancement in limits would be imperative to support scaling up of operations.

Rating sensitivities

Positive factors – The ratings may be upgraded if the company is able to sustain its scale of operations and working capital cycle while improving its operating margins and liquidity position.

Negative factors – Negative pressure on the rating could arise if execution-related delays result in decline in scale and operating profit margin on a sustained basis. Further, deterioration in the working capital cycle or inability to arrange incremental working capital lines in a timely manner, which puts pressure on its liquidity position, could also result in a downgrade.

Analytical approach

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

About the company

SCIPL is a private limited company that executes civil, engineering, and interior finishing work, primarily for commercial properties and hotels. It was started by Mr. S. C. Gupta and is now managed by him, along with Mr. Anil Aggarwal and Mr. Vinay Gupta. SCIPL has executed projects for various reputed players in the commercial and hotel industry like Lemon Tree Hotel, Indian Hotel Company Ltd., Brigade Enterprises Ltd., Jaypee Green, etc. The company's current client base includes reputed players such as Haldiram Snacks Private Limited, HCL IT City Lucknow Private Limited, Haldiram Educational Society, etc.

Key financial indicators (audited)

	FY2023	FY2024*
Operating income (Rs. crore)	84.3	170.9
PAT (Rs. crore)	2.5	6.3
OPBDIT/OI	5.4%	5.0%
PAT/OI	3.0%	3.7%
Total outside liabilities/Tangible net worth (times)	1.1	0.5
Total debt/OPBDIT (times)	3.2	1.0
Interest coverage (times)	6.2	9.4

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations;*

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	
					May 21, 2024	Jun 30, 2023	Jul 18, 2022	Jun 24, 2021	May 24, 2021
1	Cash credit	Long term	8.00	-	[ICRA]BB+ (Positive)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)
2	Non-fund based	Short term	-	-	-	-	[ICRA]A4+	[ICRA]A3	[ICRA]A3
3	Non-fund based	Long term and short term	35.00	-	[ICRA]BB+ (Positive)/ [ICRA]A4+	[ICRA]BB+ (Stable)/ [ICRA]A4+	-	-	-
4	Unallocated	Short term	-	-	-	-	-	-	[ICRA]A3
5	Unallocated	Long term and short term	2.00	-	[ICRA]BB+ (Positive)/ [ICRA]A4+	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Cash credit	Simple
Long-term/ Short-term – Non-fund Based – Bank guarantee	Very Simple
Long-term/ Short-term – 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	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash credit	NA	NA	NA	8.00	[ICRA]BB+(Positive)
NA	Non-fund based	NA	NA	NA	35.00	[ICRA]BB+(Positive) / [ICRA]A4+
NA	Unallocated	NA	NA	NA	2.00	[ICRA]BB+(Positive) / [ICRA]A4+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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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.

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