

RATING RATIONALE

19 October 2020

Shiva Harlalka.

Brickwork Ratings Upgrades the long term rating and reaffirms the short term rating for the enhanced bank loan facilities of Shiva Harlalka. (SH or the Firm) for an enhanced aggregate amount of Rs.16.00 Crs as under.

Particulars:

Facility Rated @	Previous (Rs. Crs)	Present (Rs. Crs)	Tenure	Previous^ June, 2019	Rating#
Fund Based Cash Credit	10.00	10.00	Long Term	BWR BB- Stable	BWR BB Stable, (Upgraded)
Non-Fund Based Bank Guarantee (Proposed)	5.00	6.00	Short Term	BWR A4	BWR A4 (Reaffirmed)
Total	15.00	16.00	(Rupees Sixteen Crores Only)		

Please refer to BWR website www.brickworkratings.com for definition of the ratings

@ Details of Bank facilities are provided in Annexure-I

^The Rating was published under “Rating Not Reviewed” category on 22 June, 2020.

Rating Action/Outlook:

BWR has essentially relied upon the Audited financials of the Firm for FY19, Provisional figures for FY20, projections for FY 21 other information as available in the public domain, as well as information / clarifications provided by the Firm and its bankers, to arrive at the present ratings.

Based on annual review, BWR has upgraded the long term rating from BWR BB-, Stable, to BWR BB, Stable and has reaffirmed the short term rating at BWR A4 for the enhanced bank loan facilities of Shiva Harlalka aggregating Rs.16.00 Crs.

The rating has been assigned a ‘**Stable**’ outlook as the business risk profile of the firm is stable and growth in business and profitability is expected to be maintained in the medium term.

The ratings upgrade reflects the improved financial risk profile of the firm as per FY20 provisional numbers, promoter’s extensive experience of over a decade in Civil & Road construction business, reputed government clientele, and a healthy order book position. The rating upgrade also reflects continued comfortable debt-protection metrics, with the debt to equity ratio, interest coverage ratio (ISCR) and debt service coverage ratio (DSCR) standing at comfortable levels. However, the rating is constrained by the moderate scale of operations, geographic and customer concentration risks, tender based nature of sourcing business, proprietorship constitution, and working capital intensive nature of its business.

KEY RATING DRIVERS:

Credit Strengths:

- **Improved Financial risk profile:** The financial risk profile of the firm is marked by improvement in scale of operations, profitability, leverage and debt coverage indicators. The revenue of the Firm has increased to 44.72 Crs in FY19 compared to Rs.13.52 Crs in FY 18 and the same has also increased to Rs.67.85 Crs as per FY 20 Provisionals. The EBITDA has increased to Rs.4.51 Crs in FY 19 compared to Rs.1.50 Crs in FY 18, as per FY 20 Provisionals it has increased to Rs.5.82 Crs. The debt to equity ratio has improved and stood moderate at 1.50 times as on 31st March, 2019 compared to 4.29 times as on 31st March, 2018, and the same has also improved as per FY 20 Provisionals, and stood below unity at 0.76 times as on 31st March, 2020. The interest coverage ratio (ISCR) and debt service coverage ratio (DSCR) of the firm are also comfortable at 3.01 times and 2.28 times respectively in FY19 as well as 3.51 times and 2.90 times as per FY 20 Provisionals.
- **Experienced management:**The proprietor of the firm, Mr. Shiva Harlalka has more than a decade of experience in Civil & Road construction works. The Firm has been executing the work contracts since 2004.
- **Reputed Government Clientele:** SH has established healthy relationships with various government departments of Assam. Key clients include PWD Assam, Assam Power Distribution Company Limited (APDCL), National Highways Authority of India etc.
- **Healthy Order Book position:**The order book position of the firm stood comfortable at ~140.00 Crs, to be executed over a period of two years, showing healthy revenue visibility.

Credit Weaknesses :

- **Moderate scale of operations:** Though the firm was established in 2004, its scale of operations has remained moderate with total operating income at Rs.44.72 crore in FY19.
- **Geographic & customer concentration:** The order-book of the firm consists entirely of work orders from the state of Assam and is limited to the Public Works Department of Assam. Hence there is significant concentration risk in both these areas, which is mitigated by the nature of the customer and the long relationship which the firm has with them.
- **Tender based nature of business:-**The Firm obtains its business through participation in tenders which limits the margin due to competition in the sector.
- **Limitations of Proprietorship Concern:** The entity is exposed to all the limitations of a proprietorship concern, including the risk of withdrawal of capital by the proprietor.
- **Working Capital intensive nature of business:** The operations of SH are working capital intensive as the firm is engaged in civil & road construction activity where a high level of debtors is required to be maintained.



ANALYTICAL APPROACH :

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria (hyperlinks provided at the end of this rationale).

RATING SENSITIVITIES

Positive triggers:

- Consistent increase in scale of operations, improvement in EBITDA and net profit margin.
- Increase its Net Worth, improvement in the operating efficiency of the firm.

Negative triggers:

- Continuous decline in revenue, and deterioration of the financial position of the firm, including deterioration in liquidity.
- Delay in repayments of its debt obligations.

LIQUIDITY POSITION: Adequate

The Firm's liquidity position is adequate, with its current ratio at 1.38 times as per FY 20 provisional numbers (FY19:1.25 times) and working capital utilization of around ~90 percent during the last six months. The Firm presently does not have any major debt-led capex plans and long term repayment obligations. Liquidity is further supported by a healthy ISCR & DSCR of 3.51 times and 2.90 times respectively as per FY 20 Provisionals (3.01 times and 2.28 times respectively in FY19). The firm has also not availed the Covid 19 Relief moratorium.

About the Firm

Shiva Harlalka (SH) is an Assam based proprietorship concern promoted by Mr. Shiva Harlalka in 2004. The Firm (SH) is engaged in providing civil and road construction activity in the state of Assam. The firm is Class IA contractor for PWD of Assam and majorly into construction of National & State Highways.

FIRM FINANCIAL PERFORMANCE

The Firm has reported Total Operating Income of Rs.44.72 Crs and PAT of Rs.2.44 Crs for FY19 compared to Rs.13.52 Crs and Rs.0.75 Crs in FY 18 respectively.. Tangible Net-worth of the Firm stood at Rs.3.60 Crs as on 31st March 2019 compared to Rs.1.41 Crs as on 31st March 2018. The debt to equity ratio stood at 1.50 times as on 31st March, 2019 compared to 4.29 times as on 31st March 2018. The interest coverage ratio (ISCR) and debt service coverage ratio (DSCR) of the firm stood at 3.01 times and 2.28 times respectively in FY19 as well as 3.51 times and 2.90 times respectively in FY 20 provisional. On a provisional basis, the firm reported Total operating income of ~Rs.67.85 Crs in FY 20. The Tangible net worth of the firm improved to Rs.5.36 Cr as on March 31, 2020.

KEY FINANCIAL INDICATORS (In ₹ Cr):

Parameters	31-Mar-2018	31-Mar-2019	31-Mar-2020
	(Audited)	(Audited)	(Provisional)
Total Operating Income (Rs. Crores)	13.52	44.72	67.85
EBITDA (Rs. Crores)	1.50	4.51	5.82
PAT (Rs. Crores)	0.75	2.44	3.66
Tangible Net Worth (TNW) (Rs. Crores)	1.41	3.60	5.36
Total Debt : TNW (Times)	4.29	1.50	0.76
Current Ratio (Times)	1.32	1.25	1.38

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED: NA

NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY : NA

Rating History for the last three years (including withdrawn/suspended ratings)

S. No	Name of Instrument (NCD/Bank Loan /Non-Fund Based facilitates/ Commercial Paper etc.)	Current Rating 19.09.2020			Chronology of Rating History for the past 3 years (Rating Assigned and Press Release date) along with outlook/ Watch, if applicable											
		Type(Long Term/Short Term)	Amount Outstanding (Rs. Crores)	Rating	Date(s) & Rating(s) assigned in 2019	Date(s) & Rating(s) assigned in 2018	Dates(s) & Rating(s) assigned in 2017									
1	Bank Loan Facility-Long Term	*FB-Cash Credit	10.00	BWR BB Stable (Upgraded)	<p style="text-align: center;">21.06.2019</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%;">Long Term</td> <td></td> <td rowspan="4" style="width: 20%; vertical-align: middle;">BWR BB-/ Stable/A4 Assigned</td> </tr> <tr> <td>Fund Based PCFC/PSFC</td> <td style="text-align: center;">10.00</td> </tr> <tr> <td>Non-Fund Based Bank Guarantee</td> <td style="text-align: center;">5.00</td> </tr> <tr> <td></td> <td style="text-align: center;">15.00</td> </tr> </table>			Long Term		BWR BB-/ Stable/A4 Assigned	Fund Based PCFC/PSFC	10.00	Non-Fund Based Bank Guarantee	5.00		15.00
Long Term		BWR BB-/ Stable/A4 Assigned														
Fund Based PCFC/PSFC	10.00															
Non-Fund Based Bank Guarantee	5.00															
	15.00															
2.	Bank Loan Facility-Short Term	**NFB-Cash Credit (Proposed)	6.00	BWR A4 (Reaffirmed) with enhancement in amount.		-	-									
	Total		16.00	Upgraded the long term rating & Reaffirmed the short term Rating for the enhanced Bank loan Facility												

*FB- Fund Based

**NFB- Non Fund Based

COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Infrastructure Sector](#)
- [Short Term Debt](#)

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Annexure I

Shiva Harlalka.

Details of Bank Facilities rated by BWR

Sl. No.	Name of the Bank	Type of Facilities	Tenure	Total [₹ Cr]
1	Allahabad Bank	Cash Credit	Fund Based- long term	10.00
2.		Bank Guarantee	Non Fund Based- Short term	6.00
TOTAL				16.00



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