



Infomerics Valuation And Rating Pvt. Ltd.

Press Release

Subaya Constructions Company Limited

February 13, 2020

Ratings

Instrument/Facility	Amount (Rs. Crore)	Ratings Assigned
Bank Facilities- Long Term	18.00	IVR BBB-/Stable Outlook (IVR Triple B Minus with Stable Outlook)
Bank Facilities- Short Term	65.50	IVR A3 (IVR A Three)
Total	83.50	

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of Subaya Constructions Company Limited (SCCL) draws comfort from established track record of its promoters, it's reputed clientele albeit customer concentration and proven project execution capability. The ratings also positively considers improvement in operating income in FY19 and 9MFY20, comfortable capital structure and comfortable debt protection metrics with strong order book reflecting satisfactory medium term revenue visibility. However, the rating strengths are partially offset by its small scale of operation, risk related to civil contractor and revenue concentration. The rating also consider the highly fragmented and competitive nature of construction sector with price war leading to susceptibility of operating margin to volatile input prices and its working capital intensive nature of operation.

Key Rating Sensitivities:

Upward Factor:

- Steady flow of orders & timely execution of the same leading to sustained improvement in scale of operations and profitability thereby improvement in liquidity position
- Sustenance of the capital structure



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Downward factor:

- Any delays in execution of projects impacting the scale of operations and impairment in profitability affecting the liquidity position
- Moderation in the capital structure with deterioration in the overall gearing to more than 1x
- Elongation in the operating cycle to more than 125 days.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Established track record of promoters

The promoters Mr. S. Esakki Thevar and Mrs. S Meenakshi has experience of more than two decades in the civil construction industry. The extensive experience of the management has helped the company to successfully bid for tenders floated by various municipal bodies in Tamil Nadu.

Proven project execution capability

Over the past years, the entity has successfully completed many projects involving construction of underground drains, sewerage lines, sewerage treatment plants and water supply schemes primarily for municipal bodies across Tamil Nadu and ensured timely completion of all its projects. The repeat orders received from its clientele validate its construction capabilities.

Reputed clientele albeit customer concentration

SCCL mainly bids for tenders floated by various municipal bodies and is mainly engaged in construction of under-ground drains, sewerage lines and construction of sewerage treatment plants. Moreover, the company only works for contractual work and not as a sub-contractor for other contractors. Customers being government bodies imparts comfort with low counterparty risk.

Strong order book reflecting satisfactory medium-term revenue visibility

The company has a strong unexecuted order book of Rs.778.32 crore as on December 31, 2019 which is about 7.63 times of its FY19 construction revenue (i.e.Rs.101.89 crore) with major



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orders across six contracts. The orders are expected to be completed within next one-three years, indicating a satisfactory near to medium term revenue visibility.

Improvement in operating income in FY19 and 9MFY20

SCCL's total operational income declined from Rs.100.71 Crore in FY17 to Rs.54 crore in FY18 due to accumulation of various external forces like ban on construction (by National Green Tribunal) and on use of river sand affecting its ongoing project in Karaikudi and Pollachi, However, the Total operating income increased by ~89% from Rs.54 crore in FY18 to Rs.101.89 crore in FY19 driven by increased flow of orders and higher execution of the same. With increase in total operating income, absolute EBIDTA and PAT has also improved in FY19. Consequently gross cash accruals has also improved from Rs.2.98 crore in FY18 to Rs.5.96 crore in FY19. The PAT margin has also witnessed an improvement from 3.85% in FY18 to 5.10% in FY19. Further, in 9MFY20 the company has achieved a PAT of Rs.5.93 crore on total operating income of Rs.94.25 crore.

Comfortable capital structure with comfortable debt protection metrics

The capital structure of the company remained comfortable as on the past three account closing dates. The overall gearing ratio further improved from 0.58x as on March 31, 2018 to 0.40x as on March 31, 2019 driven by scheduled repayment of term loans and accretion of profit to reserves. Total indebtedness of the company as reflected by TOL/TNW also remained comfortable at 1.16x as on March 31, 2019. Infomerics expects that the capital structure will continue to remain comfortable in the near term. With improvement in absolute in EBITDA and cash accruals in FY19, Interest coverage ratio and Total debt/GCA improved from 2.57x and 6.17x respectively in FY18 to 3.15x and 2.48x respectively in FY19. The debt protection metrics are expected to remain above average over the medium term with a rise in cash accruals.

Key Rating Weaknesses

Small scale of operation

Notwithstanding the improvement in scale of operations in FY19, the scale of operation remained small and SCCL remains a marginal player in the construction industry which is largely dominated by large and established players with intense competition in the operating



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spectrum. Small scale of operations restricts the financial flexibility of the company in times of stress. The net worth base of the company also remained modest at Rs.37.06 crore as on March 31, 2019.

Highly fragmented & competitive nature of the construction sector with significant price war

The domestic infrastructure/construction sector is highly crowded with presence of several mid and big size players with varied statures & capabilities. Boom in the infrastructure sector, a few years back, resulted in increase in the number of players. While the competition is perceived to be healthy, significant price cut by few players during the bidding process is a matter of serious concern for the users with respect to quality of output. However, this risk is minimized to an extent on account of extensive experience of the management.

Susceptibility of operating margin to volatile input prices

Major raw materials used in civil construction activities are steel & cement and in construction activities pipe, pumps, brick and sand which are usually sourced from large players/dealers at proximate distances. The raw material & labour (including sub-contracting) cost forms the majority chunk of the total cost of sales for the last three years. As the raw material prices & labour (including sub-contracting) cost are volatile in nature, the profitability of the company is subject to fluctuation in raw material prices & labour (including sub-contracting) cost. However, presences of escalation clause (for raw materials) in most of the contracts protect the margin to an extent.

Revenue concentration risk

The present order book is skewed towards construction of sewerage lines and sewerage treatment plants in Tamil Nadu from various municipal bodies indicating a geographical and sectorial concentration risk. However, the company has adequate experience in order to execute projects in these states which provide a comfort.

Inherent risk as a Civil Contractor

Economic vulnerability and regulatory risks in developing markets, delay in payments from the Government, project execution risk and fluctuating input costs are the key business risk faced by



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the company. Any delay in receipt of prerequisite approvals could adversely affect the revenues and profitability.

Working capital intensive nature of operation

The operations of SCCL are working capital intensive as a large amount of working capital remains blocked in earnest money deposits, retention money and margin money for fixed deposits. Further, the clients are government bodies having various procedural requirements where payments are relatively slow resulting in high collection period of 108 days in FY19 (194 days in FY18), comfort can be derived from the fact that the dues are from various government departments bodies which carries a low default risk. However, the average working capital utilisation for past 12 months ending December 2019, is ~90%. Further, the non-fund based limits of the company also remained highly utilized at ~95% till December 2019.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Infrastructure Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity - Adequate

SCCL has a healthy current ratio at 2.06x as on March 31, 2019 and generate a cash accruals of Rs.5.96 crore as against a negligible repayment obligations. Further, the liquidity profile of SCCL is expected to remain adequate marked by its expected satisfactory cash accrual of ~Rs.10.78 crore vis a- vis its low debt repayment obligations of ~Rs.0.44 crore in FY20. Further, the company has minimal capex requirement and has no planned avilment of long-term debt which imparts comfort. However, the liquidity profile is restricted due to SCCL's working capital intensive nature of operations marked by elongated operating cycle. However, the average working capital utilisation for past 12 months ending December 2019, is ~90%. Further, the non-fund based limits of the company also remained highly utilized at ~95% till December 2019.



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About the Company

Subaya Constructions Company Limited (SCCL) was incorporated in 2001 by Mr. E Subaya and his associates. SCCL is primarily engaged in execution of contracts involving construction of under-ground drains, sewerage lines and construction of sewerage treatment plants in and around Chennai. The company receives order against tender from various municipal bodies in Tamil Nadu. The day to day operations of the company are looked after by Mrs. T. Amurutha under the guidance of Mr. S. Esakki Pandian and Mrs. S. Meenakshi Subaya. The directors are supported by a team of experienced and qualified professionals. SCCL is a closely held company with 100% shareholding in the company being held by the promoters and their associates

Financials (Standalone):

(Rs. crore)

For the year ended*/As on	31-03-18	31-03-19
	Audited	Audited
Total Operating Income	54.00	101.89
EBITDA	5.90	11.02
PAT	2.10	5.22
Total Debt	18.38	14.79
Tangible Net worth	31.85	37.06
EBITDA Margin (%)	10.93	10.82
PAT Margin (%)	3.85	5.10
Overall Gearing Ratio (x)	0.58	0.40

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Issuer not cooperating by ICRA vide press release dated April 30, 2019 due to non-availability of information.

Any other information: Nil



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Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Cash Credit	Long Term	18.00	IVR BBB- /Stable	-	-	-
2.	Non Fund Based Limits-	Short Term	65.50	IVR A3			

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.



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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facilities- Cash Credit	-	-	-	18.00	IVR BBB-/Stable
Short Term Bank Facilities- Letter of Credit/Letter of Guarantee	-	-	-	65.50	IVR A3