

Press Release

Sree Subha Sales

November 18, 2019

Rating

Sl. No.	Instrument/Facility	Amount (Rs. Crores)	Rating Assigned
1.	Long Term Facility – Fund Based – Overdraft	5.00	IVR BBB / Stable Outlook (IVR Triple B with Stable Outlook)
2.	Long Term Facility – Non Fund Based – Bank Guarantee	35.00*	IVR BBB / Stable Outlook (IVR Triple B with Stable Outlook)
	Total	40.00	

**including proposed facilities of Rs.6 crore*

Details of Facilities are in Annexure I

Detailed Rationale

The aforesaid rating derives comfort from experienced partner, comfortable profitability margins, infusion of capital and improvement in gearing and debt protection metrics, satisfactory track record in niche area with strong order book position. However, the rating strengths are partially offset by client and geographical concentration risk, constitution of the firm and exposure in competitive segment.

Key Rating Sensitivities

Upward Factors

- Improvement in scale of operations
- Diversification in work profile
- Improvement in profitability and leverage

Downward Factors

- Delays in execution of order book
- Deterioration in profitability and leverage

Detailed Description of the Key Rating Drivers

Key Rating Strengths

Experienced partner

The firm is promoted by Mr. K.A. Nanda, a graduate with experience of around three decades in the infrastructure sector in Karnataka. His vast experience helps the firm during the bidding stage as well as in successful execution of contracts. He is ably assisted by a team of qualified and experienced personnel in managing the day-to-day operations.

Comfortable profitability margins

The profitability margins of the firm have remained comfortable over the last three years. The EBITDA margin and PAT margin have been in the range of 7.5%-8% and 6.25%-7.5% respectively during the last three years.

Infusion of capital and improvement in gearing and debt protection metrics

The firm has infused fresh capital of Rs.3.50 crore during FY19. It has comfortable capital structure and negligible long term debt. The overall gearing ratio was comfortable at 0.28x as on March 31, 2019. Also, TOL/TNW ratio of less than 2.5x as on the last three account closing dates indicates very comfortable leverage position on an overall basis. Other debt coverage parameters were, by and large, comfortable as on last three account closing days.

Satisfactory track record in niche area with strong order book position

The firm has expertise in water supply projects of the government. They have satisfactory track record of undertaking and completing water supply and underground drainage and water supply related work for Karnataka Urban Water Supply and Drainage Board (KUWSDB). The firm had an outstanding order book of Rs.208.51 crore (1.47x the total operating income of FY19) as on June 30, 2019, comprising of nineteen projects to be executed over a period of 24-36 months. The order book consists of water supply projects to be executed in various divisions of KUWSDB. The firm has also received a new tender of ~Rs.167 crores in May 2019 from KUWSDB for construction of master reservoir and water supply system at Kairangala.

Key Rating Weaknesses

Client and geographical concentration risk

The firm has presence across the state of Karnataka, where the firm has successfully executed many projects in the last three decades. Since the entire revenue is generated from Karnataka and that too from one government department (KUWSDB), the firm remains exposed to client as well as geographical concentration risk.

Constitution of the firm

Due to its constitution of being a partnership firm, it lacks oversight on governance issues. The entity also has the risk of withdrawal of partner's capital at the time of contingency

though the firm has demonstrated infusion of fresh capital. Also the firm has limited access to external borrowings from lenders due to its constitution.

Exposure in competitive segment

The sector is marked by intense competition with a large number of players and has low entry barriers. The firm is engaged in the business of infrastructure work for government departments. Furthermore, the high competitive intensity in this segment might result in aggressive bidding for the projects, thereby impacting profitability margins of players. However, the firm has been able to maintain its profitability margins over last three years and the same is expected going forward.

Analytical Approach & Applicable Criteria

Standalone Approach

Rating Methodology for Infrastructure Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity

The firm has been earning a moderate level of GCA for the last few years and the same is expected to increase further with increase in scale of operation. The firm had no major long term debt for scheduled repayment as on March 31, 2018. The firm also maintains sufficient cash and bank balance to meet its liquidity requirements. The utilization of working capital limits remained on the lower side (~32%) during the 12 months ended April 30, 2019. The ICR of 23.97x respectively indicate comfortable liquidity position of the firm in meeting its debt obligations.

About the Company

M/s. Sree Subha Sales (SSS) was established as proprietorship firm by Mr. K.A. Nanda in 1990. The constitution of the entity was changed to a partnership firm in July 2017. The firm undertakes civil construction works (particularly underground drainage and water supply) for government departments, mainly for the Karnataka Urban Water Supply and Drainage Board (KUWSDB). All the projects and contracts executed by the firm has been in the state of Karnataka. Presently Mr. K.A. Nanda and his wife, Mrs. K.N. Mayura are partners in the firm. Mr. Nanda is a graduate and has around three decades of industry

experience. His vast experience helps the firm during the bidding stage as well as in successful execution of contracts. He is ably assisted by a team of qualified and experienced personnel in managing the day-to-day operations. The other Partner, Mrs. Mayura is a commerce graduate and manages the administration and accounts of the firm. The office of the firm is situated in Bengaluru. Currently, the firm has around 50 employees on its payroll. In addition, there are other contractual employees at work sites as per operational requirement of the projects.

Financials

(Rs. crore)

For the year ended/ As On	31-03-2018	31-03-2019
	(Audited)	(Audited)
Total Operating Income	139.81	142.27
EBITDA	11.42	11.68
PAT	10.79	10.28
Total Debt	13.61	9.20
Tangible Net-worth	17.91	28.87
<u>Ratios</u>		
EBITDA Margin (%)	8.17	8.21
PAT Margin (%)	7.67	7.22
Overall Gearing Ratio (x)	0.76	0.32

Note: Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: CRISIL has moved the rating of Sree Subha Sales into the Issuer Non-Cooperating category as the company did not co-operate in the rating procedure despite repeated follow ups as per the Press Release dated March 30, 2019.

Any other information: N.A

Rating History for last three years:

Sl. 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.	Long Term Facility – Fund Based - Overdraft	Long Term	5.00	IVR BBB/ Stable Outlook	--	--	--
2.	Long Term Facility – Non Fund Based – Bank Guarantee	Long Term	29.00	IVR BBB/ Stable Outlook	--	--	--
3.	(Proposed) Long Term Facility – Non Fund Based – Bank Guarantee	Long Term	6.00	IVR BBB/ Stable Outlook	--	--	--

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. 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 Facility – Fund Based - Overdraft	--	--	--	5.00	IVR BBB/Stable Outlook
Long Term Facility – Non Fund Based – Bank Guarantee	--	--	--	35.00*	IVR BBB/Stable Outlook

**including proposed facilities of Rs.6 crore*