

Press Release

Surya & Company

May 25, 2018



Rating Downgraded

| | |
|------------------------------|---|
| Total Bank Facilities Rated* | Rs.12.50 Cr. |
| Long Term Rating | SMERA B/Stable (Downgraded from SMERA B+/Stable) |
| Short Term Rating | SMERA A4 |

* Refer Annexure for details

Rating Rationale

SMERA has downgraded the long term rating to '**SMERA B**' (read as **SMERA B**) from '**SMERA B+**' (read as **SMERA B plus**) and reaffirmed the short term rating to '**SMERA A4**' (read as **SMERA A four**) on the Rs.12.50 crore bank facilities of Surya & Company. The outlook is '**Stable**'.

The downgrade reflects stretched liquidity position as evident from instances of over draws in cash credit account coupled with high inventory levels. The group also failed to achieve the estimated revenue by about 40 percent in FY2018.

Established in 1990 by Mr. Sudesh Tanwar, Surya & Company is a Delhi based proprietorship firm engaged in undertaking electrical and civil contracts such as construction of sub-stations, laying of feeder lines and roads. The firm has an associate concern, namely, Parkash & Company which is also engaged in similar line of business.

About the Group: Surya & Company has an associate concern, namely, Parkash & Company established in 1995, which is also engaged in undertaking electrical contracts such as construction of sub-stations and laying of feeder lines. The group majorly deals with New Okhla Industrial Development Authority. The group is promoted by Mr. Sudesh Tanwar and Mr. Dharam Parkash Tanwar.

Analytical approach: SMERA has considered the consolidated business and financial risk profiles of Surya & Company and Parkash & Company (hereinafter referred to as the group). This is because both entities have a common management and have significant financial linkages.

Key rating drivers

Strengths

Experienced management and established relationship with government entities: The promoters have more than two decades of experience as electrical and civil contractors. The group benefits from over two decades of established relationship with New Okhla Industrial Development Authority (NOIDA) for execution of electrical contracts. Though the contracts executed to NOIDA are on tender basis, the group is able to get repeat orders due to their quality and timely supplies. The group has an order book position of Rs.51.86 crore as on April, 2018 providing revenue visibility over the medium term.

Weaknesses

Weak financial risk profile: The financial risk profile of the group is marked by low net worth, high gearing and total outside liabilities to total net worth (TOL/TNW). The gearing is high at 4.9 times (provisional) as on March 31, 2018 though it is an improvement from 7.1 times in the previous year. TOL/TNW is high at about 10.00 times in FY2018 and FY2017, on account of modest net worth of about Rs.4.50 crore as on March 31, 2018 and working capital intensive operations. The group has short term debt

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of Rs.20.77 crore and unsecured loans of Rs.0.10 crore as on March 31, 2017. The debt protection metrics are moderate such as Interest Coverage Ratio (ICR) at 2.71 times and net cash accruals to total debt (NCA/TD) stood at 0.36 times as on March 31, 2017. SMERA believes that the financial risk profile of the group continues to be below-average considering the modest net worth and low accretions to reserves.

Working capital intensive operations: The operations are working capital intensive as reflected in high Gross Current Assets (GCA) of 350 days as on March 31, 2017 compared to 322 days as on March 31, 2016 due to high inventory levels. Inventory days in FY2017 stood at 231 compared to 151 in FY2016. The work-in-progress, finished and unbilled contract portion led to high inventory levels. High GCA weighs down the profitability in terms of interest cost, as well as price fluctuations of raw materials. Further, it resulted in full utilisation of bank lines over the past 6 months through March, 2018 and occasional over drawal of limits though adhoc limit is permitted by the bank. SMERA believes that operations will continue to be working capital intensive basis the industry and client profile over the medium term.

Tender based business: The group deals mainly with government organisations which provide orders on tender basis. Going forward, the group's ability to bid for large orders and qualify for the same remains to be seen. However, the promoter's ability to cater to private companies in addition to government organisations will partially mitigate this risk.

Outlook – Stable

SMERA believes that the outlook on the group will remain 'Stable' over the medium term on account of the experienced management. The outlook may be revised to 'Positive' if the financial risk profile of the group improves substantially while improving its revenues while maintaining its profitability and capital structure by equity infusion. Conversely, the outlook may be revised to 'Negative' in case of further deterioration in its working capital management leading to deterioration of its financial risk profile and liquidity.

About the rated entity Financials

| | Unit | FY17 (Actual) | FY16 (Actual) | FY15 (Actual) |
|-------------------------------|---------|---------------|---------------|---------------|
| Operating Income | Rs. Cr. | 31.14 | 38.57 | 58.69 |
| EBITDA | Rs. Cr. | 3.83 | 4.44 | 5.29 |
| PAT | Rs. Cr. | 0.60 | 0.76 | 1.41 |
| EBITDA Margin | (%) | 12.29 | 11.51 | 9.02 |
| PAT Margin | (%) | 1.93 | 1.98 | 2.40 |
| ROCE | (%) | 16.61 | 19.56 | 19.87 |
| Total Debt/Tangible Net Worth | Times | 7.10 | 10.94 | 16.22 |
| PBDIT/Interest | Times | 1.25 | 1.27 | 1.40 |
| Total Debt/PBDIT | Times | 5.02 | 4.37 | 3.79 |
| Gross Current Assets (Days) | Days | 350 | 322 | 222 |

Any other information:

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Entities In Infrastructure Sector - <https://www.smera.in/criteria-infra.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>
- Consolidation of Companies- <https://www.smera.in/criteria-consolidation.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Status of non-cooperation with previous CRA (if applicable): Not Applicable.

Rating History (Upto last three years)

| Date | Name of Instrument / Facilities | Term | Amount (Rs. Crore) | Ratings/Outlook |
|-------------|---------------------------------|------------|--------------------|------------------------------|
| 19-Apr-2018 | Cash Credit | Long Term | 10.00 | SMERA B+ (Indicative) |
| | Bank Guarantee | Short Term | 2.50 | SMERA A4 (Indicative) |
| 30-Jan-2017 | Cash Credit | Long Term | 10.00 | SMERA B+/Stable (Reaffirmed) |
| | Bank Guarantee | Short Term | 2.50 | SMERA A4 (Reaffirmed) |
| 20-Oct-2015 | Cash Credit | Long Term | 10.00 | SMERA B+/Stable (Assigned) |
| | Bank Guarantee | Short Term | 2.50 | SMERA A4 (Assigned) |

***Annexure - Details of instruments rated**

| Name of the Facilities | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. Crore) | Ratings/Outlook |
|------------------------|------------------|----------------|----------------|-------------------------------|------------------------------|
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 10.00 | SMERA B/ Stable (Downgraded) |
| Bank Guarantee | Not Applicable | Not Applicable | Not Applicable | 2.50 | SMERA A4 (Reaffirmed) |

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ABOUT SMERA

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