

Press Release

Subaya Constructions Company Limited (SCCL)

April 21, 2017

Rating Assigned

Total Bank Facilities Rated*	Rs. 73.00 Cr
Long Term Rating	SMERA BB/Stable
Short Term Rating	SMERA A4+

*Refer Annexure for details

Rating Rationale

SMERA has assigned long term rating of '**SMERA BB**' (**read as SMERA double B**) and short term rating of '**SMERA A4+**' (**read as SMERA A four plus**) on the Rs.73.00 crore bank facilities of Subaya Constructions Company Limited (SCCL). The outlook is '**Stable**'.

SCCL, incorporated in 2001 is a Chennai-based company engaged in the construction of underground drains and sewerage lines.

List of key rating drivers and their detailed description

Strengths

Established track record of promoters

The promoters, Mr. S.Esakki Thevar and Mrs. S Meenakshi possess experience of more than two decades in the civil construction industry. Prior to starting SCCL, the promoters executed contracts in their individual capacity. The extensive experience of the management has helped the company to successfully bid for contracts from the Tamil Nadu government entities - namely Tamil Nadu Water Supply and Drainage Limited, Salem Municipal Corporation, Chennai Metropolitan Water Supply and Sewerage Board among others.

SMERA believes that the promoter's business track record and relations with government entities will help support the business risk profile of SCCL in the near to medium term.

Above average financial risk profile

The company has above average financial risk profile with moderate networth of Rs. 25.80 cr. The TOL to TNW ratio stood at around 1.56 times (gearing of 0.75 times) as on March 31, 2016. The debt protection metrics is moderate with NCATD (Net cash accruals to Total Debt) of 0.21 times in FY2016. The interest coverage stood comfortable at 4.18 times in FY2016.

SMERA believes that the prudent capital structure and healthy debt protection metrics will support the credit profile of SCCL.

Moderate order book

The company has order book of ~Rs.210.00 cr (as of January, 2017) as against revenue of Rs.110.10 cr in FY2015-16 (~1.91 times of the revenues of FY2015-16) thus creating medium term revenue visibility.

Weaknesses

Susceptibility of operating performance to the tender based nature of business

The company has registered a fluctuating revenue trend from FY2014 to FY2016 with revenue of around Rs.110.10 cr in FY2016 (as against Rs.55.07 cr in FY2015). Being a regional player, revenue is largely dependent on successful bidding of tenders and the number of tenders floated by the Tamil Nadu government.

The operating margins declined to 6.51 per cent in FY2016 from 10 per cent in FY2015 mainly on account of its susceptibility to adverse variations in raw material prices given the fixed / semi-fixed nature of contract pricing and exposure to competitive bids.

SMERA believes that the ability to maintain stable revenue growth while maintaining steady profitability will be a key determinant to its future credit profile.

Working capital intensive operations

The company operations are working capital intensive with GCA of around 151 days mainly on account of debtors to 81 days. Further the average cash credit utilisation stands high at around ~88 per cent in last six months ended in February, 2017. SMERA believes that the efficient working capital management will be crucial to maintain a stable credit profile for SCCL.

Analytical approach: SMERA has considered the standalone financial and business risk profiles of the company to arrive at the ratings.

Applicable Criteria

- Application of Financial Ratios & Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>
- Default Recognition - <https://www.smera.in/criteria-default.htm>

Outlook: Stable

SMERA believes that SCCL will maintain a stable outlook in the medium term on account of its experienced management and healthy order book position providing revenue visibility over the medium term. The outlook may be revised to 'Positive' in case the company registers higher-than-expected growth in revenues and net cash accruals while maintaining healthy debt protection metrics. Conversely, the outlook may be revised to 'Negative' if the company registers lower-than-expected growth in revenues and profitability or deterioration in the financial risk profile or higher than expected working capital requirements.

About the Rated Entity

SCCL, incorporated in 2001 under the directorship of Mr. E. Subaya, Mrs. S. Meenakshi and Mr. S. Esakki Thevar. SCCL has been engaged in construction of underground drains and sewerage lines in and around Chennai.

For FY2015-16, SCCL reported net profit of Rs.3.36 cr on operating income of Rs.110.10 cr, as compared to net profit of Rs.2.06 crore on operating income of Rs.55.07 cr in FY2014-15.

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

Any other information: Not Applicable

Rating History for the last three years:

Name of Instrument /Facilities	FY2017			FY2016		FY2015		FY2014	
	Scale	Amount (Rs. Crore)	Rating with Outlook	Date	Rating	Date	Rating	Date	Rating
Secured Overdraft	LT	18.00	SMERA BB/Stable (Assigned)	-	-	-	-	-	-
Inland Bank Guarantee	ST	52.00	SMERA A4+ (Assigned)	-	-	-	-	-	-
Inland Letter of Credit	ST	3.00	SMERA A4+ (Assigned)	-	-	-	-	-	-

***Annexure - Details of instruments rated:**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr)	Ratings/Outlook
Secured Overdraft	NA	NA	NA	18.00	SMERA BB/Stable (Assigned)
Inland Bank Guarantee	NA	NA	NA	52.00	SMERA A4+ (Assigned)
Inland Letter of Credit	NA	NA	NA	3.00	SMERA A4+ (Assigned)

Note on complexity levels of the rated instrument: <https://www.smera.in/criteria-complexity-levels.htm>

Contacts:

Analytical	Rating Desk
Vinayak Nayak, Head – Rating Operations, SMERA Bond Ratings Tel: 022-67141190 Email: vinayak.nayak@smera.in	Varsha Bist Sr. Executive Tel: 022-67141160 Email: varsha.bist@smera.in
Reema Gangola, Rating Analyst, Tel:022-67141111 Email: reema.gangola@smera.in	

ABOUT SMERA

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