

Press Release

Subaya Constructions Company Limited

November 22, 2018



Rating Reaffirmed

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

* Refer Annexure for details

Rating Rationale

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

The reaffirmation in rating reflects sustenance of its business risk profile and working capital intensive operations. The revenues of SCCL declined by 46.38 percent Y-o-Y in FY2018 and gross current assets increased by more than two fold in FY2018. However, the ratings continue to reflect SCCL's healthy order book position of Rs.773 crore, improvement in operating margins and moderate financial risk profile.

SCCL is a Chennai-based company incorporated in 2001. It is engaged in the construction of underground drains and sewerage lines, sewage treatment plants and other civil works. All the orders received are against tender. The company is rendering services to municipal bodies in Tamil Nadu.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the SCCL to arrive at this rating.

Key Rating Drivers

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 Tamil Nadu government entities, namely, Tamil Nadu Water Supply and Drainage Limited (TNWSDL), Salem Municipal Corporation and Chennai Metropolitan Water Supply, among others. The same has reflected in healthy order book position of about Rs.773.00 crore as on October 2018. Acuité believes that the healthy order book position and promoter's experience is expected to support in improvement of its business risk profile over the medium term.

- **Moderate financial risk profile**

Financial risk profile of the company is moderate marked by comfortable gearing (Debt to equity ratio), total outside liabilities to tangible net worth (TOL/TNW), moderate debt protection metrics and moderate debt service coverage ratio. Gearing is healthy at 0.57 times as on 31 March, 2018 (Provisional) against 0.31 times as on 31 March, 2017. TOL/TNW is comfortable at 1.37 times as on 31 March, 2018 (Provisional) as against 1.23 times as on 31 March, 2017. Net worth is moderate at Rs.32.27 crore as on 31 March, 2018 (Provisional) as against Rs.30.01 crore as on 31 March, 2017. Of the total debt of Rs.18.38 crore as on 31 March 2018, long term debt constitutes Rs.1.37 crore and short term debt of Rs.17.01 crore.

Debt protection metrics of interest coverage ratio and net cash accruals to total debt are moderate at 2.84 times and 0.18 times respectively in FY2018 (Provisional). Debt Service Coverage Ratio (DSCR) is moderate at 2.42 times in FY2018 (Provisional) as against 3.49 times in FY2017. SCCL's cash accruals are expected in the range of Rs.6-7 crore over the medium term which are adequate to service its debt obligations of about Rs.0.35-0.40 crore; and to meet its incremental working capital

requirements. Acuité believes that the financial risk profile of the company is expected to be at similar levels over the medium term in the absence of major debt funded capital expenditure plans and accretions to reserves.

Weaknesses

- **Decline in revenues**

Revenues of the company declined from Rs.100.71 crore in FY2017 to Rs.54.00 crore in FY2018 (Provisional) due to strikes held by public while executing the contracts of TNWSDL at Karaikudi and Pollachi. Any further, objection or delay in executing the projects by any external forces will impact the business risk profile of the company.

- **Working capital intensive operations**

Operations of the company are working capital intensive marked by high Gross Current Assets (GCA) at 365 days in FY2018 as against 150 days in FY2017. This is mainly due to high debtors at 199 days in FY2018 as against 101 days in FY2017. Inventory days are comfortable at less than 30, though increased from 7 days in FY2017. High GCA days is also due to retention money with the customers. The same has led to 95 percent utilisation of bank limits for the last six months through October 2018. However, the company is able to fund its working capital requirements through mobilisation advances from customers. Acuité believes that working capital cycle is expected to be at similar levels over the medium term.

- **Susceptibility of operating performance to the tender based nature of business**

The company is engaged as a civil works contractor which is marked by the presence of several mid to big size players. The company faces competition from other players in the sectors. Risk become more pronounced as tendering is based on minimum amount of bidding on contracts. However, this risk is mitigated to an extent on account of extensive experience of the management.

Outlook: Stable

Acuité believes that SCCL will maintain a 'Stable' business risk profile over the medium term benefitting from its experienced management and healthy order book position. The outlook may be revised to 'Positive' in case the company registers healthy revenue growth while maintaining stable profitability margins. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital management or any sharp decline in revenues or profitability leading to deterioration in the financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	54.00	100.71	110.10
EBITDA	Rs. Cr.	5.98	8.67	7.17
PAT	Rs. Cr.	2.26	4.21	3.36
EBITDA Margin	(%)	11.08	8.60	6.51
PAT Margin	(%)	4.19	4.18	3.05
ROCE	(%)	12.32	19.64	15.16
Total Debt/Tangible Net Worth	Times	0.57	0.31	0.75
PBDIT/Interest	Times	2.84	4.55	4.18
Total Debt/PBDIT	Times	2.83	1.04	2.59
Gross Current Assets (Days)	Days	365	150	151

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>

- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-14.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
09-Jul-2018	Letter of Credit	Short Term	3.00	ACUITE A4+ Issuer not co-operating*
	Secured Overdraft	Long Term	18.00	ACUITE BB Issuer not co-operating*
	Bank Guarantee	Short Term	52.00	ACUITE A4+ Issuer not co-operating*
21-Apr-2017	Secured Overdraft	Long Term	18.00	ACUITE BB / Stable (Assigned)
	Bank Guarantee	Short Term	52.00	ACUITE A4+ (Assigned)
	Letter of Credit	Short Term	3.00	ACUITE 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
Overdraft	Not Applicable	Not Applicable	Not Applicable	18.00	ACUITE BB / Stable (Reaffirmed)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	52.00	ACUITE A4+ (Reaffirmed)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A4+ (Reaffirmed)

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About Acuité Ratings & Research:

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