

Press Release

Subaya Constructions Company Limited

July 02, 2019



Rating Upgraded, Reaffirmed and Assigned

Total Bank Facilities Rated*	Rs.103.00 Cr. (Enhanced from Rs. 73.00 Cr.)
Long Term Rating	ACUITE BB+ / Stable (Upgraded from ACUITE BB/ Stable)
Short Term Rating	ACUITE A4+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded the long term rating to '**ACUITE BB+** (read as ACUITE double B plus) from '**ACUITE BB** (read as ACUITE double B) and reaffirmed the short term rating to '**ACUITE A4+** (read as ACUITE A four plus) on the Rs. 83.50 crore bank facilities of Subaya Constructions Company Limited (SCCL).

Further it has assigned the short term rating of '**ACUITE A4+** (read as ACUITE A four plus) on the Rs. 19.50 Crore bank facilities of SCCL. The outlook is '**Stable**'.

Rating upgrade reflects improvement on account of revenue growth while maintaining its financial risk profile. Further, the company has healthy orders in hand providing revenue visibility and it has also streamlined its working capital cycle over the previous year.

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 financial and business risk profiles of SCCL to arrive at the 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 (TNWSL), Salem Municipal Corporation and Chennai Metropolitan Water Supply, Vellore Corporation among others. The same has reflected in healthy order book position of about Rs. 855.42 crore by Mid-June 2019.

Acuité believes that the healthy order book position and promoter's experience is expected to support the improvement of its business risk profile over the medium term.

Moderate financial risk profile

The financial risk profile is moderate marked by moderate Networth, low gearing and moderate debt protection metrics.

SCCL has tangible Networth of Rs. 36.66 crore as on March 31, 2019 (Provisional) as against Rs. 32.11 crore as on March 31, 2018. Gearing is healthy at 0.41 times as on March 31, 2019 (prov.) as against 0.57 times as on 31 March, 2018. TOL/TNW is comfortable at 1.18 times as on 31 March, 2019 (Provisional).

Of the total debt of Rs.15.16 crore as on 31 March 2019, long term debt constitutes Rs. 1.13 crore and short

term debt of Rs. 14.03 crore. Debt protection metrics of interest coverage ratio and net cash accruals to total debt are moderate at 3.73 times and 0.37 times respectively in FY2019 (Provisional).

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.

Weaknesses

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 stiff 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.

Liquidity Position:

Operations of the company are working capital intensive marked by high Gross Current Assets (GCA) at 316 days in FY2018 as against 150 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 past six months. However, the company is able to fund its working capital requirements through mobilization advances from customers.

Acuité believes that the efficient working capital management will be crucial to the company in order to maintain a stable credit profile.

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	FY19 (Prov.)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	98.66	54.00	100.71
EBITDA	Rs. Cr.	9.61	5.90	8.67
PAT	Rs. Cr.	4.55	2.10	4.21
EBITDA Margin	(%)	9.74	10.93	8.60
PAT Margin	(%)	4.62	3.89	4.18
ROCE	(%)	18.14	10.40	19.64
Total Debt/Tangible Net Worth	Times	0.41	1.04	0.31
PBDIT/Interest	Times	3.73	2.79	4.55
Total Debt/PBDIT	Times	1.48	5.22	1.04
Gross Current Assets (Days)	Days	179	316	150

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Entities in Infrastructure sector - <https://www.acuite.in/view-rating-criteria-14.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-40.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
22-Nov-2018	Overdraft	Long Term	18.00	ACUITE BB / Stable (Reaffirmed)
	Bank guarantee/ Letter of Credit	Short Term	52.00	ACUITE A4+ (Reaffirmed)
	Letter of Credit	Short Term	3.00	ACUITE A4+ (Reaffirmed)
09-Jul-2018	Overdraft	Long Term	18.00	ACUITE BB Issuer not cooperating*
	Letter of Credit	Short Term	3.00	ACUITE A4+ Issuer not cooperating*
	Bank guarantee	Short Term	52.00	ACUITE A4+ Issuer not cooperating*
21-Apr-2017	Overdraft	Long Term	18.00	ACUITE BB / Stable (Assigned)
	Letter of Credit	Long Term	3.00	ACUITE A4+ (Assigned)
	Bank guarantee	Long Term	52.00	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 (Upgraded from ACUITE BB)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	3.50 (Enhanced from Rs. 3.00 crore)	ACUITE A4+ (Reaffirmed)
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	62.00 (Enhanced from Rs. 52.00 Crore)	ACUITE A4+ (Reaffirmed)
Proposed Bank guarantee	Not Applicable	Not Applicable	Not Applicable	19.50	ACUITE A4+ (Assigned)

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About Acuité Ratings & Research:

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