

## Press Release

### Subaya Constructions Company Limited

September 10, 2019



#### Rating Reaffirmed

<b>Total Bank Facilities Rated*</b>	Rs.108.00 Cr. (Enhanced from Rs. 103.00 Cr.)
<b>Long Term Rating</b>	ACUITE BB+ / Stable (Reaffirmed)
<b>Short Term Rating</b>	ACUITE A4+ (Reaffirmed)

\* Refer Annexure for details

#### Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE BB+** (read as ACUITE double B plus) and reaffirmed the short-term rating of '**ACUITE A4+** (read as ACUITE A four plus) on the Rs. 108.00 crore (enhanced from Rs.103.00 Cr.) bank facilities of Subaya Constructions Company Limited (SCCL). The outlook is '**Stable**'.

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 operations and experienced promoters**

SCCL has established track record as a contractor for more than two decades and has established its market position. 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, Vellore Corporation among others. The same has been reflected in healthy order book position of about Rs. 820.00 crore as on July 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. 37.32 crore as on March 31, 2019 as against Rs. 32.11 crore as on March 31, 2018. Gearing is healthy at 0.46 times as on March 31, 2019 as against 0.57 times as on 31 March, 2018. TOL/TNW is comfortable at 1.15 times as on 31 March, 2019. Of the total debt of Rs.17.07 crore as on 31 March 2019, long term debt constitutes Rs. 0.41 crore, short term debt of Rs. 14.03 crore and unsecured loans from directors worth Rs. 2.28 crore. Debt protection metrics of interest coverage ratio and net cash accruals to total debt are moderate at 2.78 times and 0.47 times respectively in FY2019. 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

- **Moderate working capital nature of operations**

The moderate working capital nature of operations are marked by moderate Gross Current Asset (GCA) days of 199 in FY2019 and 316 days in FY2018. The GCA is marked by high receivables, which has reduced to 112 days in FY2019 as against 199 days in FY2018. The working capital limits utilisation is around 95.00 per cent for the last six months through July 2019. The GCA days is also stretched due to

the retention money with the customers. Acuité believes that sustaining existing improvement in working capital cycle and moderate reliance on working capital limits will lead to overall improvement in liquidity profile.

**• 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:**

The liquidity profile of the company stood adequate marked by moderate cash accruals of Rs.7.98 crore as against repayment obligation of Rs.0.35 crore – Rs. 0.40 crore for FY2019. The net cash accruals are likely to remain adequate over the medium term backed by healthy order book position. The current ratio stood at 1.58 times in FY2019. The moderate working capital nature of operations are marked by moderate Gross Current Asset (GCA) days of 199 in FY2019 and 316 days in FY2018. The working capital limits utilisation is around 95.00 per cent for the last six months through July 2019. 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 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	101.89	54.00	100.71
EBITDA	Rs. Cr.	11.99	5.90	8.67
PAT	Rs. Cr.	5.22	2.10	4.21
EBITDA Margin (%)	(%)	11.77	10.93	8.60
PAT Margin (%)	(%)	5.12	3.89	4.18
ROCE (%)	(%)	22.41	12.16	19.64
Total Debt/Tangible Net Worth	Times	0.46	0.57	0.31
PBDIT/Interest	Times	2.78	2.79	4.55
Total Debt/PBDIT	Times	1.37	2.86	1.04
Gross Current Assets (Days)	Days	199	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/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.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
July 02, 2019	Overdraft	Long Term	18.00	ACUITE BB+/ Stable (Upgraded from ACUITE BB)
	Letter of Credit	Short Term	3.50 (Enhanced from Rs. 3.00 crore)	ACUITE A4+ (Reaffirmed)
	Bank guarantee	Short Term	62.00 (Enhanced from Rs. 52.00 Crore)	ACUITE A4+ (Reaffirmed)
	Proposed Bank guarantee	Short Term	19.50	ACUITE A4+ (Assigned)
22-Nov-2018	Overdraft	Long Term	18.00	ACUITE BB / Stable (Reaffirmed)
	Bank guarantee	Short Term	52.00	ACUITE A4+ (Reaffirmed)
	Letter of Credit	Short Term	3.00	ACUITE A4+ (Reaffirmed)
09-July-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	Short Term	3.00	ACUITE A4+ (Assigned)
	Bank guarantee	Short 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 (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	3.50	ACUITE A4+ (Reaffirmed)
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	62.00	ACUITE A4+ (Reaffirmed)
Proposed Bank guarantee	Not Applicable	Not Applicable	Not Applicable	24.50 (Enhanced from 19.50)	ACUITE A4+ (Reaffirmed)

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### About Acuité Ratings & Research:

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