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Subaya Constructions Company Limited

November 10, 2020

Ratings

Instrument/Facility	Amount (Rs. Crore)	Ratings	Rating Action
Bank Facilities- Long Term	25.00 (Enhanced from 18 crore)	IVR BBB-/Stable Outlook (IVR Triple B Minus with Stable Outlook)	Reaffirmed
Bank Facilities- Short Term	93.50 (Enhanced from 65.50)	IVR A3 (IVR A Three)	Reaffirmed
Total	118.50		

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of Subaya Constructions Company Limited (SCCL) continues to draw comfort from established track record of its promoters, its proven project execution capability and reputed clientele has led to improvement in operating income in FY20 (Prov.) albeit customer concentration and strong order book reflecting satisfactory medium term revenue visibility with comfortable capital structure and comfortable debt protection metrics. However, these rating strengths are partially offset by its small scale of operation, working capital intensive nature of operation and risk related to civil contractor and revenue concentration. The ratings also consider highly fragmented and competitive nature of construction sector with price war and susceptibility of operating margin to volatile input prices.

Key Rating Sensitivities:

Upward Factor:

- Steady flow of orders & timely execution of the same leading to sustained improvement in scale of operations and profitability thereby improvement in liquidity position
- Sustenance of the capital structure



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Downward factor:

- Any delays in execution of projects impacting the scale of operations and impairment in profitability affecting the liquidity position
- Moderation in the capital structure with deterioration in the overall gearing
- Elongation in the operating cycle to more than 125 days.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Established track record of promoters**

The promoters Mr. S.Esakki Thevar and Mrs. S Meenakshi has experience of more than two decades in the civil construction industry. The extensive experience of the management has helped the company to successfully bid for tenders floated by various municipal bodies in Tamil Nadu.

- **Proven project execution capability**

Over the past years, the entity has successfully completed many projects involving construction of underground drains, sewerage lines, sewerage treatment plants and water supply schemes primarily for municipal bodies across Tamil Nadu and ensured timely completion of all its projects. The repeat orders received from its clientele validate its construction capabilities.

- **Reputed clientele albeit customer concentration**

SCCL mainly bids for tenders floated by various municipal bodies and is mainly engaged in construction of under-ground drains, sewerage lines and construction of sewerage treatment plants. Moreover, the company only works for contractual work and not as a sub-contractor for other contractors. Customers being government bodies imparts comfort with low counterparty risk.

- **Strong order book reflecting satisfactory medium-term revenue visibility**

The company has a strong unexecuted order book of Rs.718.63 crore as on July 31, 2020 which is about 5.97 times of its FY20(Prov) construction revenue (i.e.Rs.120.33 crore) with major orders across six contracts. The orders are expected to be completed within next one-three years, indicating a satisfactory near to medium term revenue visibility.



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- **Improvement in operating income in FY20 (Prov.)**

The total operating income increased by ~18% from Rs.101.89 crore in FY19 to Rs.120.33 crore in FY20 (Prov) driven by increased flow of orders and higher execution of the same. With increase in total operating income, absolute PAT and PBT has also improved in FY20 (Prov.), with gross cash accruals improvement from of Rs 5.96 crore in FY19 compared to Rs 7.26 crore in FY20. The PAT margin has also witnessed an improvement from 5.10% in FY19 to 5.36% in FY20 (Prov). Further, till Sept 2020 the company has achieved total sales of Rs.74.70 crore and PAT of Rs 4.40 Crore

- **Comfortable capital structure with moderate debt protection metrics**

The capital structure of the company remained comfortable as on the past three account closing dates. The overall gearing ratio further improved from 0.40x as on March 31, 2019 to 0.25x as on March 31, 2020 (Prov.) driven by lower utilization of working capital limits and accretion of profit to reserves. Total indebtedness of the company as reflected by TOL/TNW also remained comfortable at 0.91x as on March 31, 2020. Though the Company has availed enhancement in its working capital limit and in bank guarantee limit, Infomerics expects that the capital structure will continue to remain moderate in the near term. Debt protection metrics like interest coverage ratio and Total debt/GCA are moderate and improved from 3.44x and 2.48x respectively in FY19 to 4.44x and 1.51x respectively in FY20 (Prov.). The debt protection metrics are expected to remain above average over the medium term with a rise in cash accruals.

Key Rating Weaknesses

- **Small scale of operation**

Notwithstanding the improvement in scale of operations in FY20, the scale of operation remained small and SCCL remains a marginal player in the construction industry which is largely dominated by large and established players with intense competition in the operating spectrum. Small scale of operations restricts the financial flexibility of the company in times of stress. The net worth base of the company also remained modest at Rs.43.54 crore as on March 31, 2020 (Prov.)

- **Highly fragmented & competitive nature of the construction sector with significant price war**



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The domestic infrastructure/construction sector is highly crowded with presence of several mid and big size players with varied statures & capabilities. Boom in the infrastructure sector, a few years back, resulted in increase in the number of players. While the competition is perceived to be healthy, significant price cut by few players during the bidding process is a matter of serious concern for the users with respect to quality of output. However, this risk is minimized to an extent on account of extensive experience of the management.

- **Susceptibility of operating margin to volatile input prices**

Major raw materials used in civil construction activities are steel & cement and in construction activities pipe, pumps, brick and sand which are usually sourced from large players/dealers at proximate distances. The raw material & labour (including sub-contracting) cost forms the majority chunk of the total cost of sales for the last three years. As the raw material prices & labour (including sub-contracting) cost are volatile in nature, the profitability of the company is subject to fluctuation in raw material prices & labour (including sub-contracting) cost. However, presences of escalation clause (for raw materials) in most of the contracts protect the margin to an extent.

- **Revenue concentration risk**

The present order book is skewed towards construction of sewerage lines and sewerage treatment plants in Tamil Nadu from various municipal bodies indicating a geographical and sectorial concentration risk. However, the company has adequate experience in order to execute projects in these states which provide a comfort.

- **Inherent risk as a Civil Contractor**

Economic vulnerability and regulatory risks in developing markets, delay in payments from the Government, project execution risk and fluctuating input costs are the key business risk faced by the company. Any delay in receipt of prerequisite approvals could adversely affect the revenues and profitability.

- **Working capital intensive nature of operation**

The operations of SCCL are working capital intensive as a large amount of working capital remains blocked in earnest money deposits, retention money and margin money for fixed deposits. Further, the clients are government bodies having various procedural requirements where payments are relatively slow resulting in high collection period of 93 days in FY20 (108 days in FY19), comfort can be derived from the fact that the dues are from various government



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departments bodies which carries a low default risk. However, the average working capital utilisation for past 12 months ending June 2020, is ~86%. Further, the non-fund based limits of the company also remained moderately utilized at ~68% till August 2020.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Infrastructure Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity – Adequate

SCCL has a healthy current ratio at 2.32x as on March 31, 2020 (Prov) and generate a cash accruals of Rs.7.26 crore in FY20 (Prov.) as against its minimal amount of repayment obligations. The liquidity profile of SCCL is expected to remain adequate marked by its expected satisfactory cash accrual of ~Rs.10.38 to Rs 17.42 crore vis a- vis its low debt repayment obligations in the range of ~Rs.0.30 crore during FY21-23. Further, the company has minimal capex requirement and has availed enhanced working capital limit and BG limit. However, the liquidity profile is restricted due to SCCL's working capital intensive nature of operations marked by elongated operating cycle. Further, the average cash credit utilisation of the company remained moderate at ~86% during the past 12 months ended June, 2020 indicating a moderate liquidity buffer.

About the Company

Subaya Constructions Company Limited (SCCL) was incorporated in 2001 by Mr. E Subaya and his associates. SCCL is primarily engaged in execution of contracts involving construction of under-ground drains, sewerage lines and construction of sewerage treatment plants in and around Chennai. The company receives order against tender from various municipal bodies in Tamil Nadu. The day to day operations of the company are looked after by Mrs. T. Amurutha under the guidance of Mr. S. Esakki Pandian and Mrs. S. Meenakshi Subaya. The directors are supported by a team of experienced and qualified professionals. SCCL is a closely held company with 100% shareholding in the company being held by the promoters and their associates



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Financials (Standalone):

(Rs. crore)

For the year ended*	31-03-2019	31-03-2020
	Audited	Provisional
Total Operating Income	101.89	120.33
EBITDA	11.02	11.96
PAT	5.22	6.48
Total Debt	14.79	10.93
Tangible Net worth	37.06	43.54
EBITDA Margin (%)	10.82	9.94
PAT Margin (%)	5.10	5.36
Overall Gearing Ratio (x)	0.40	0.25

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Cash Credit	Long Term	25.00	IVR BBB-/Stable	IVR BBB-/Stable (Feb 13,2020)	-	-
2.	Letter of Credit	Short Term	3.50	IVR A3	IVR A3 (Feb 13,2020)	-	-
3.	Letter Of Guarantee	Short Term	90.00	IVR A3	IVR A3 (Feb 13,2020)	-	-

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.



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About Infomerics:

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facilities- Cash Credit	-	-	-	25.00	IVR BBB- /Stable
Short Term Bank Facilities- Letter of Credit	-	-	-	3.50	IVR A3
Short Term Bank Facilities- Letter of Guarantee	-	-	-	90.00	IVR A3