



Press Release

Sree Subha Sales

February 16, 2021

Ratings

Sl. No.	Instrument/Facility	Amount (INR Crore)	Rating Assigned	Rating Action
1.	Long Term Facility – Non Fund Based – Bank Guarantee*	35.00	IVR BBB Credit Watch with Developing Implications (IVR Triple B Credit Watch with Developing Implications)	Outlook revised from Stable to Credit Watch with Developing implications
2.	Short Term Bank Facility– Fund Based – Overdraft	5.00	IVR A3+ Credit Watch with Developing Implications (IVR A Three Plus Credit Watch with Developing Implications)	Outlook revised from Stable to Credit Watch with Developing Implications
	Total	40.00		

**including proposed facility of INR6.00 crore.*

Details of Facilities are in Annexure 1

Detailed Rationale

The revision in the outlook from Stable to Credit Watch with Developing Implications is on account of the firm's subdued financial performance during April to September period due to COVID-19 pandemic. The ratings of the bank facilities of the firm has been re-affirmed on account of the firm's steady operations supplemented by growth in operating income, comfortable capital structure and debt protection metrics, moderate order book with medium term revenue visibility and an experienced partner. However, the constitution of the firm, client and geographical concentration risk, susceptibility of operating margin to volatile input prices are the rating constraints.



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Key Rating Sensitivities

Upward factors:

- Successful commissioning and completion of project without any time or cost overruns.
- Maintaining profitability as projected

Downward factors:

- Sharp changes in leverage
- Decline in profitability and elongation in operating cycle

Key Rating Drivers with detailed description

Key Rating Strengths

Steady operations supplemented by growth in operating income, comfortable capital structure and debt protection metrics

The firm has seen their top line grow from INR142.27 crore in FY19 to INR163.99 crore in FY20 supported by the execution of the existing order book. Furthermore, in H1FY21 the revenues have increased 31.60% on a y-o-y basis to INR149.87 crore. The firm's financial risk profile remains comfortable with low leverage as evident by the long term debt equity ratio of 0.67x and overall gearing ratio of 0.84x in FY20. The interest coverage ratio has remained strong at 20.13x in FY20.

Moderate order book with medium term revenue visibility

The firm has an unexecuted order book position of INR212.51 crore, which is 1.30x the operating income of FY20. Majority of the orders are set to be completed within FY22, thereby providing revenue visibility for the medium term, the firm has been offered additional works to be done on existing projects and completed projects which has also served as a source of cash flows for the firm. Over the past years, the firm has successfully completed many projects within the state of Karnataka and ensured timely completion of all its projects. The repeat orders received from their clients is a validation of their construction capabilities.

Experienced partner

The firm is spearheaded by Mr. K.A. Nanda, a graduate with experience of around three decades in the infrastructure sector in Karnataka. His vast experience helps the firm during



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the bidding stage as well as in successful execution of contracts. He is ably assisted by a team of qualified and experienced personnel in managing the day-to-day operations.

Key Rating Weaknesses

Constitution of the firm

Due to its constitution of being a partnership firm, it lacks oversight on governance issues. The entity also has the risk of withdrawal of partner's capital at the time of contingency though the firm has demonstrated infusion of fresh capital. Also the firm has limited access to external borrowings from lenders due to its constitution.

Client and geographical concentration risk

The firm has presence across the state of Karnataka, where the firm has successfully executed many projects in the last three decades. Since the entire revenue is generated from Karnataka and that too from one government department (KUWSDB), the firm remains exposed to client as well as geographical concentration risk.

Susceptibility of operating margin to volatile input prices

Major raw materials used in civil construction activities are steel & cement and in road construction activities are stone, steel, cement 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 firm is subject to fluctuation in raw material prices & labour (including sub-contracting) cost. However, the firm has an in-built price variation clause for major raw materials like cement, bitumen & steel in majority of its contracts.

Analytical Approach: Standalone

Applicable Criteria

Rating Methodology for Infrastructure Companies

Financial Ratios & Interpretation (Non-financial Sector)



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Liquidity – Strong

The firm has strong liquidity with a current ratio of 1.79x and a quick ratio of 1.69x in FY20. Due to improved profits over the past three fiscals the firm has seen an improvement in gross cash accruals which amount to INR12.36 crore along with cash and bank balances of INR25.62 crore (including fixed deposit of INR12.05 crore) as against negligible short term obligations of INR2.46 crore (Interest + CPLTD) and a strong gearing ratio of 0.84x at the end of FY20.

About the firm

Sree Subha Sales (SSS) was established as proprietorship firm by Mr. K.A. Nanda in 1990. The constitution of the entity was changed to a partnership firm in July 2017. The firm undertakes civil construction works (particularly underground drainage and water supply) for government departments, mainly for the Karnataka Urban Water Supply and Drainage Board (KUWSDB). All the projects and contracts executed by the firm has been in the state of Karnataka. Presently Mr. K.A. Nanda and his wife, Mrs. K.N. Mayura are partners in the firm. Mr. Nanda is a graduate and has around three decades of industry experience. His vast experience helps the firm during the bidding stage as well as in successful execution of contracts. He is ably assisted by a team of qualified and experienced personnel in managing the day-to-day operations. The other Partner, Mrs. Mayura is a commerce graduate and manages the administration and accounts of the firm.

Financials (Standalone)*:

(INR crore)

For the year ended/ As On	31-03-2018	31-03-2019	31-03-20
	(Audited)	(Audited)	(Audited)
Total Operating Income	139.81	142.27	163.99
EBITDA	11.42	11.75	12.48
PAT	10.78	10.29	10.96
Total Debt	6.79	7.26	15.21
Tangible Net-worth	7.07	12.23	18.08
Ratios			
EBITDA Margin (%)	8.17	8.26	7.61
PAT Margin (%)	7.67	7.23	6.66
Overall Gearing Ratio (x)	0.96	0.59	0.84

* Classification as per Infomerics' standards



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Status of non-cooperation with previous CRA: None

Any other information: None

Rating History for last three years:

Sl. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (INR crore)	Rating	Date(s) & Rating(s) assigned in 2019-20 (PR dated November 18, 2019)	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Long Term Bank Facility – Non Fund Based – Bank Guarantee*	Long Term	35.00	IVR BBB/ Credit Watch with Developing Implications	IVR BBB / Stable Outlook	--	--
2.	Short Term Bank Facility – Fund Based – Overdraft	Short Term	5.00	IVR A3+ Credit Watch with Developing Implications	IVR A3+	--	--

*Including proposed limit of INR6.00 crore.

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:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.



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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (INR Crore)	Rating Assigned/ Outlook
Long Term Bank Facility – Non Fund Based – Bank Guarantee*	NA	NA	Up to 2 years	35.00	IVR BBB/ Credit Watch with Developing Implications
Short Term Facility – Fund Based Overdrafts	NA	NA	Up to 1 year	5.00	IVR A3+ Credit Watch with Developing Implications

**Including proposed limits of INR6.00 crore*