April 13, 2023

Suroj Buildcon Pvt. Ltd.: Ratings reaffirmed; outlook revised to Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Cash credit	12.50	12.50	[ICRA] A-(Positive); reaffirmed, outlook revised to Positive from Stable
Short-term Non-fund based limits	336.50	336.50	[ICRA]A2+; reaffirmed
Long-term/ Short-term – Unallocated limits	1.00	1.00	[ICRA] A-(Positive)/ [ICRA]A2+; reaffirmed; outlook revised to Positive from Stable
Total	**350.00**	**350.00**	

**Instrument details are provided in Annexure-I*

Rationale

The revision in outlook to Positive reflects ICRA's expectation that the credit profile of Suroj Buildcon Private Limited (SBPL) will improve over the near to medium term (vis-à-vis earlier anticipated) in the backdrop of increasing scale of operations, with over 45% YoY revenue growth in FY2023e, alongside healthy profitability and debt coverage indicators. Further, a healthy order book of ~Rs. 1,250 crore as on December 31, 2022, which is 1.9 times of its operating income (OI) in FY2022, provides adequate revenue visibility, considering the average execution period of 9-18 months. The ratings continue to favourably factor in the company's experienced promoters, long track record of operations, reputed clientele (which reduces counterparty risk), and robust financial profile evidenced by a comfortable capital structure and debt protection metrics. A large portion of its working capital requirement is funded by interest-free advances from customers, resulting in lower dependence on external debt and low working capital intensity.

The ratings, however, remain constrained by SBPL's moderate scale of operations (compared to established and much larger peers) and stiff competition in the construction industry. The company faces high segment concentration risk as the industrial construction sector remains the sole contributor to the order book. While SBPL has been able to secure contracts from clients from different end-user industries (viz. data centres, chemical, pharmaceutical, automobile, etc), it remains exposed to risks associated with cyclicality in private sector capex. Despite sizeable cash balance on its balance sheet, a sizeable capital is blocked as collateral and/or margin money for non-fund based limits, which could drag overall growth prospects. The company remains vulnerable to any delays in getting the requisite work fronts/design approvals, which might result in cost escalation. Nevertheless, cost escalation clauses in long gestation contracts for key raw materials (like steel and cement) mitigates this risk to some extent. SBPL acquired 51% stake in a software company – Logic MO Systems Private Limited in FY2022 – to which it has extended loans and advances worth ~Rs. 16 crore to support its scale-up, along with a corporate guarantee of ~Rs. 19 crore for its working capital limits. A significant increase in such non-core investments or incremental exposure to subsidiaries/Group companies, which could impact its liquidity position, could be a credit negative for SBPL. Going forward, the company's ability to judiciously manage its working capital, while sustaining growth momentum and coverage metrics, remains important from the credit perspective.

Key rating drivers and their description

Credit strengths

Experienced management – The company has an experienced management with a track record of about two decades in catering to the requirements of the industrial segment.

Healthy order book gives medium-term revenue visibility – The company added new orders aggregating ~Rs. 1,200 crore in 9M FY2023, pertaining to diverse industries like data centres, paint, automobile, FMCG, cleaning articles and systems, as well as the logistics sector. It had an outstanding orderbook of ~Rs 1,250 crore as on December 31, 2022 (translating into 1.9 times FY2022 revenues), thereby providing adequate revenue visibility, considering the average execution period of 9-18 months.

Reputed clientele – The company has demonstrated execution capabilities in constructing industrial warehouses and factory buildings across the country with repeat orders from various multi-national companies (MNCs) like Coalgate, ITC Ltd., Asian Paints Ltd., etc. The reputed client profile results in low counterparty credit risk.

Comfortable financial profile – SBPL saw a robust 62% YoY revenue growth in 9M FY2023, with revenues touching Rs. 593 crore (provisional figures). The company continues to maintain a comfortable financial profile as reflected in moderate leverage and healthy coverage indicators (interest cover and DSCR at 13.9 times) as on December 31, 2022. Further, its cash conversion cycle remains comfortable as a large portion of its working capital requirement is funded by interest-free advances from customers, resulting in lower dependence on external debt and low working capital intensity.

Credit challenges

Moderate scale of operations; stiff competition in the construction industry – SBPL's scale of operations remains modest compared to other established and much larger engineering, procurement and construction (EPC) players. Moreover, stiff competition in the construction sector limits its pricing flexibility and exerts pressure on the overall operating margins.

High segmental concentration; prospects linked to private sector capex – The company remains exposed to high segment concentration risk with the industrial construction segment being the sole contributor to the order book. While it has been able to secure contracts from clients in different end-user industries, SBPL remains vulnerable to risks associated with cyclicality in private sector capex.

Margins exposed to commodity price variations – The company's margins are vulnerable to rise in commodity prices. Also, delays in getting requisite work fronts/ design approvals might expose it to cost escalation. However, ICRA notes that for long gestation projects, the contracts have a provision for cost escalation for key raw materials (steel and cement), which mitigates the risk to some extent.

Exposure to non-core investments – In FY2022, SBPL acquired 51% stake in a software company – Logic MO Systems Private Limited. To assist the company to meet its day-to-day expenditure, SBPL has extended short-term financial assistance worth around ~Rs. 16 crore as loans and advances and has also extended corporate guarantee for working capital limits (Rs. 19 crore in YTD FY2023, up from Rs. 12 crore in FY2022). The subsidiary is in the nascent stage of operation, so weakening of its financial profile may translate into future liability for SBPL.

Liquidity position: Adequate

The company's liquidity position remains adequate, supported by unencumbered cash balances and undrawn bank lines. The fund-based limit utilisation over the 12-month period of January 2022 to December 2022 was low at 5.6%, providing cushion of ~Rs. 12 crore. Further, it had free cash balances of ~Rs. 23 crore as on December 31, 2022. The free cash will be used as collateral for enhancing its working capital limits to support its growth plans. A large portion of its working capital requirement is funded by interest-free advances from customers, resulting in lower dependence on external debt and low working capital intensity. Material reduction in order inflows could have a bearing on customer advances and working capital borrowings, and hence remain a monitorable. SBPL has planned a capex of ~Rs. 25 crore for FY2024, in addition to debt repayment obligation of around Rs. 7-8 crore, which can all be comfortably met through its cash flow from operations.

Rating sensitivities

Positive factors – SBPL's ratings could be upgraded if there is a consistent improvement in its scale of operations, while sustaining the operating profit margins and maintaining a favourable cash conversion cycle.

Negative factors – Negative pressure on SBPL's ratings could arise if there is a slowdown in execution because of weak order inflow and/or if there is any deterioration in the company's working capital cycle impacting its profitability and liquidity position. Further, material increase in non-core investments affecting its liquidity will be a credit negative. Also, TOL/TNW increasing beyond 1.5 times, on a sustained basis, could exert downward pressure on the ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Construction Entities
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has used a limited consolidation approach, under which only the proposed funding support to subsidiary towards debt servicing and/or operational shortfall have been considered. The list of companies that are considered to arrive at the ratings are shared in Annexure II.

About the company

Incorporated in 2013, Suroj Buildcon Pvt Ltd undertakes contracts for construction of industrial buildings across various sectors viz. pharmaceutical, chemical, food, beverages, automobile, heavy engineering, warehousing, institutional, petrochemical, etc. The company carries out civil and structural works, architectural works, pre-engineered building works for industrial buildings. Based out of Pune, it has executed works in Telangana, Gujarat, Karnataka, Maharashtra, Punjab. The present clientele includes MNCs like Microsoft Corporation India Pvt Ltd, Asian Paints, Bajaj Auto limited, Asian Paints and the Adani Group.

SBPL undertakes modular housing through its associate company – Suraj Modular Housing Pvt. Ltd.

Logic MO Systems Private limited was incorporated in October 2020 and provides software solutions for design, implementation, and maintenance of smart transportation systems. It includes toll collection and management system, integrated traffic management system, adaptive traffic signalling systems, etc. SBPL acquired 51% stake in this company from April 2021.

SBPL is held by the promoters, Mr. Sachin Biyani, and Mr. Sopan Khedkar, in their individual capacities.

Key financial indicators (audited)

Standalone	FY2021	FY2022	9M FY2023*
Operating income	443.2	652.8	592.5
PAT	29.0	46.6	41.2
OPBDIT/OI	10.1%	10.9%	11.4%
PAT/OI	6.5%	7.1%	7.0%
Total outside liabilities/Tangible net worth (times)	1.0	1.07	1.5
Total debt/OPBDIT (times)	0.2	0.2	0.3
Interest coverage (times)	10.8	19.9	18.2

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

**Provisional unaudited results*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as on Dec 31, 2022 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021
					Apr 13, 2023	Aug 22, 2022	Apr 04, 2022	-	Feb 12, 2021
1	**Fund-based – Cash credit**	Long term	12.50	-	[ICRA]A- (Positive)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-	[ICRA]A- (Stable)
2	**Non-fund based limits**	Short term	336.50	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	-	[ICRA]A2+
3	**Unallocated**	Long term and short term	1.00	-	[ICRA]A- (Positive)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term – Fund-based – Cash Credit	Simple
Short term – Non-fund Based Limits	Very Simple
Long-term and short-term – Unallocated	Not applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Cash credit**	NA	NA	NA	12.50	[ICRA]A- (Positive)
NA	**Non-fund based limits**	NA	NA	NA	336.50	[ICRA]A2+
NA	**Unallocated**	NA	NA	NA	1.00	[ICRA]A- (Positive)/ [ICRA]A2+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Logic MO Systems Private Limited	**51%**	limited consolidation approach

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