

October 04, 2023<sup>(Revised)</sup>

## Suroj Buildcon Pvt. Ltd.: Long-term rating upgraded to [ICRA]A(Stable); outlook revised to Stable; short-term rating reaffirmed; rated amount enhanced

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Cash credit	12.5	24.5	[ICRA]A(Stable); upgraded; with revision in outlook to Stable, from [ICRA]A-(Positive); assigned for enhanced amount
Short-term – Non-fund based limits	336.5	525.5	[ICRA]A2+; reaffirmed and assigned for enhanced amount
Long-term/ Short-term – Unallocated	1.0	0.0	-
<b>Total</b>	<b>350.0</b>	<b>550.0</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The rating upgrade for Suroj Buildcon Private Limited's (SBPL) bank facilities factors in the significant increase in its scale of operations, along with healthy profitability and debt coverage indicators. ICRA expects the company to sustain its revenue growth momentum, while maintaining robust coverage metrics going forward. The order book stood at ~Rs. 1,250 crore as on September 20, 2023, which is 1.2 times of its operating income (OI) in FY2023 and provides adequate revenue visibility, considering the average execution period of 9-18 months. Given its healthy relationship with reputed private sector clientele and strong delivery track record, SBPL is expected to garner adequate order flows on a sustained basis. The ratings continue to favourably factor-in the experience of the promoters and robust financial profile, evidenced by a comfortable capital structure (TOL/TNW of 0.9-1.0 times in FY2024e) and healthy debt protection metrics.

The ratings, however, remain constrained by 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, food, pharmaceutical, automobile, etc), it remains exposed to risks associated with cyclicity 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 constrain the overall growth prospects. Further, SBPL remains vulnerable to any delays in getting the requisite work fronts/design approvals, which may result in times and cost overruns. Nevertheless, cost escalation clauses in long gestation contracts for key raw materials (like steel and cement) mitigate these risks to some extent. A large proportion of SBPL's working capital requirement is funded by interest-free advances from customers, resulting in lower dependence on external debt and low working capital intensity. Any material change in the contractual terms with respect to availability of interest-free mobilisation advances could adversely impact SBPL's coverage metrics and liquidity position and remains a key monitorable.

SBPL acquired 51% stake in a software company – Logic MO Systems Private Limited in FY2022. It has extended loans and advances worth ~Rs. 16 crore to the same 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.

The Stable outlook reflects ICRA's opinion that SBPL will be able to improve its scale of operations, while maintaining profitability, along with its comfortable capital structure and coverage metrics.

## Key rating drivers and their description

### Credit strengths

**Comfortable financial profile** – SBPL saw a robust 56% YoY revenue growth in FY2023, with revenues touching Rs. 1,023 crore (provisional figures) and executed orders worth ~Rs. 530 crore as on September 20, 2023. The company continues to maintain a comfortable financial profile as reflected in moderate leverage and healthy coverage indicators (interest cover at 19.6 times and DSCR at 13.9 times) as on March 31, 2023. 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.

**Adequate order book provides revenue visibility** – The company's order book and OB/OI improved to ~Rs. 1,250 crore and 1.2 times as on September 20, 2023, up from Rs. 1,063 crore and 1.0 times, respectively, as on March 31, 2023. Considering the average execution period of 9-18 months, the order book provides adequate revenue visibility. Given the healthy relationships with various multi-national companies (MNCs) and strong delivery track record, SBPL is expected to garner adequate order flows, on a sustained basis. The orderbook remains diversified into diverse end-user industries like data centres, paint, automobile, FMCG, food, chemicals, etc.

**Experienced management and reputed clientele** – SBPL's management has a track record of about two decades in catering to the requirements of the industrial segment. The company has demonstrated execution capabilities in constructing industrial warehouses and factory buildings across the country with repeat orders from reputed clientele like Adani Group, Bajaj Group, ITC Ltd., Asian Paints Ltd., etc.

### Credit challenges

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

**Stiff competition in construction industry** – SBPL's scale of operations improved with shift in focus on getting large value orders. While these orders are expected to support its revenue growth, presence of stiff competition for large value orders limits the company's pricing flexibility and is likely to exert pressure on the overall operating margins.

**Exposure to non-core investments** – In FY2022, SBPL acquired 51% stake in a software company – Logic MO Systems Private Limited. To assist its day-to-day expenditure, SBPL has extended short-term financial assistance worth around ~Rs. 16 crore as loans and advances. It has also extended a corporate guarantee for working capital limits (Rs. 19 crore in YTD FY2023, up from Rs. 12 crore in FY2022). While the management expects no major support to be extended to the subsidiary, any weakening of the latter's financial profile may translate into future liability for SBPL and will be a credit negative.

### Liquidity position: Adequate

The company's liquidity position remains adequate, supported by unencumbered cash balances of Rs. 62.3 crore as on March 31, 2023 and undrawn bank lines of Rs. 23.5 crore as on July 31, 2023. SBPL has planned a capex of ~Rs. 25-30 crore for FY2024, in addition to debt repayment obligation of around Rs. 10 crore per year, which can be comfortably met through its operational cash flow.

### Rating sensitivities

**Positive factors** – SBPL's ratings could be upgraded if there is a significant improvement in its scale of operations and substantial improvement in business diversification, while improving profit margins and maintaining strong debt protection metrics.

**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 1.2 times, on a sustained basis, could exert downward pressure on the ratings.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Construction Entities</a>
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, SBPL undertakes contracts for construction of industrial buildings across various sectors, viz., pharmaceutical, chemical, food, beverages, automobile, heavy engineering, warehousing, institutional, petrochemical, etc. It carries out civil and structural works, architectural works, pre-engineered building works for industrial buildings. Based out of Pune, the company has executed works in Telangana, Gujarat, Karnataka, Maharashtra, Punjab, Uttar Pradesh, Andhra Pradesh and Haryana. The present clientele includes MNCs like Microsoft Corporation India Pvt Ltd, Asian Paints, Bajaj Auto Limited, Jubilant and Adani Group.

## Key financial indicators (audited)

Standalone	FY2021	FY2022	FY2023*
Operating income	443.2	652.8	1023.7
PAT	29.0	46.6	75.9
OPBDIT/OI	10.1%	10.9%	10.7%
PAT/OI	6.5%	7.1%	7.4%
Total outside liabilities/Tangible net worth (times)	1.0	1.1	1.3
Total debt/OPBDIT (times)	0.2	0.2	0.3
Interest coverage (times)	10.8	19.9	19.6

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

\*Provisional numbers

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for past three years

Instrument	Type	Current rating (FY2024)				Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as on Jul 31, 2023 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021
				Oct 04, 2023	Apr 13, 2023	Aug 22, 2022	Apr 04, 2022	-	Feb 12, 2021
1 Fund-based – Cash credit	Long term	24.5	0.0	[ICRA]A (Stable)	[ICRA]A- (Positive)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-	[ICRA]A- (Stable)
2 Non-fund based limits	Short term	525.5	282.9	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	-	[ICRA]A2+
3 Unallocated	Long term and short term	0.0	NA	-	[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	24.5	[ICRA]A(Stable)
NA	Non-fund based limits	NA	NA	NA	525.5	[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	SBPL Ownership	Consolidation Approach
Logic MO Systems Private Limited	51%	Limited consolidation

Source: SBPL annual report FY2022

## Corrigendum

Document dated October 04, 2023, has been corrected with revisions as detailed below:

Consolidation approach in the analytical approach table and Annexure II has been corrected.

## ANALYST CONTACTS

**Rajeshwar Burla**

+91 40 4547 4829

[rajeshwar.burla@icraindia.com](mailto:rajeshwar.burla@icraindia.com)

**Ashish Modani**

+91 20 6606 9912

[ashish.modani@icraindia.com](mailto:ashish.modani@icraindia.com)

**Chintan Dilip Lakhani**

+91 22 6169 3345

[chintan.lakhani@icraindia.com](mailto:chintan.lakhani@icraindia.com)

**Ritik Sundarka**

+91 20 6606 9926

[ritik.sundarka@icraindia.com](mailto:ritik.sundarka@icraindia.com)

## RELATIONSHIP CONTACT

**L. Shivakumar**

+91 22 6114 3406

[shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860

[communications@icraindia.com](mailto:communications@icraindia.com)

## HELPLINE FOR BUSINESS QUERIES

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

## ABOUT ICRA LIMITED

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit [www.icra.in](http://www.icra.in)

## ICRA Limited



### Registered Office

B-710, Statesman House, 148 Barakhamba Road, New Delhi-110001  
Tel: +91 11 23357940-45



### Branches



© Copyright, 2023 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website [www.icra.in](http://www.icra.in) or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.