

October 17, 2024

Suroj Buildcon Pvt. Ltd.: Ratings 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	24.5	24.5	[ICRA]A (Stable); reaffirmed
Short-term – Non-fund based limits	525.5	675.5	[ICRA]A2+; reaffirmed and assigned for enhanced amount
Total	550.0	700.0	

*Instrument details are provided in Annexure-I

Rationale

The rating action for Suroj Buildcon Private Limited (SBPL) factors in the healthy financial profile of the entity characterised by steady improvement in top line, supported by sound profitability levels, which is expected to continue in the near term. The coverage metrics continues to be strong, with minimal dependence on external debt, driven by prudent working capital management. The order book stood at ~Rs. 1,264 crore as on July 31, 2024, which is 1.0 times of its operating income (OI) in FY2024 (FY2023: 0.8 times) and provides near-term revenue visibility. Given its healthy relationship with a reputed private sector clientele and strong delivery track record, SBPL is likely to garner adequate order flows on a sustained basis. The ratings favourably factor in the proven track of experience of the promoters of over 10 years.

The ratings, however, remain constrained by the 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. food, wires and cables, logistic parks, hospital and medical institutions), it remains exposed to risks associated with the cyclicity in private sector capex, given that 100% of its clients are from the private sector. 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) as well as receipt of timely extensions 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 impact SBPL's coverage metrics and liquidity position and remains a key monitorable.

The rating factors in its exposure to sizeable contingent liabilities in the form of bank guarantees (~Rs. 382.6 crore as on July 31, 2024), mainly for mobilisation advances, contractual performance and retention money. Nonetheless, ICRA draws comfort from SBPL's execution track record and absence of any invocation of guarantees in the past. ICRA notes SBPL's exposure to non-core investments and subsidiaries/group companies. Any significant increase in such non-core investments or incremental exposure to subsidiaries/group companies, which impacts its liquidity position, could be a credit negative for SBPL.

The Stable outlook reflects ICRA's opinion that SBPL will be able to maintain its credit profile over the near to medium term, driven by adequate order book position, coupled with low external borrowing levels, which is expected to keep the capital structure and coverage metrics at comfortable levels.

Key rating drivers and their description

Credit strengths

Comfortable financial profile – SBPL saw a healthy 18% YoY revenue growth in FY2024, with revenues of Rs. 1,205 crore and executed orders worth ~Rs. 505 crore as on July 31, 2024. The company maintains a comfortable financial profile as reflected in low leverage and strong coverage indicators (interest cover at 25.3 times and DSCR at 21.4 times) as on March 31, 2024. 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 remains adequate at ~Rs. 1,265 crore and 1.0 times as on July 31, 2024, providing near-term revenue visibility. It has a normal execution period of 9-18 months. Given the vintage of working with various multi-national companies (MNCs) and strong delivery track record, SBPL is expected to garner adequate order flows, on a sustained basis, going forward. In August 2024, company has already received new two orders worth Rs. 193 crore. The order book remains diversified with exposure to multiple end-user industries like food, wires and cables, logistic parks, hospital and medical institutions, 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, KEI Industries, ITC Ltd., Asian Paints Ltd, Microsoft, Maruti Suzuki.

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 and in different geographies, SBPL remains vulnerable to risks associated with the cyclicity in private sector capex, given that 100% of its clients are from the private sector.

Risks associated with construction sector including sizeable non-fund based exposure – SBPL is exposed to the cyclicity inherent in the construction industry and intense competition in the tender-based contract award system, resulting in the risk of volatility in order inflows, revenues, and pressure on profit margins. However, its long presence and established relationships with clients, provide comfort. Most of the contracts have the provision for price variation of key raw materials such as cement and steel, which protects the profitability to an extent. SBPL is also exposed to sizeable contingent liabilities in the form of bank guarantees (~Rs. 382.6 crore as on July 31, 2024), mainly for mobilisation advances, contractual performance and retention money. Nonetheless, ICRA draws comfort from SBPL's execution track record and absence of any invocation of guarantees in the past.

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 ~Rs. 16 crore as loans and advances. It has also extended a corporate guarantee for working capital limits of Rs. 19 crore. In FY2024, there has been no incremental loans and advances provided to the subsidiary or increase in corporate guarantee. While ICRA 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, which could be a credit negative.

Liquidity position: Adequate

The company's liquidity position is expected to remain adequate, supported by free cash and liquid investments of Rs. 203.6 crore and undrawn bank lines of Rs. 24.5 crore as on July 31, 2024. SBPL has planned a capex of ~Rs. 35 crore for FY2025 and Rs. 40 crore for FY2026, in addition to debt repayment obligation of around Rs. 12 crore, all of which can be comfortably met through its operational cash flows.

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 maintaining healthy profit margins and 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	Corporate Credit Rating Methodology Construction
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. 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 across numerous Indian states. The present clientele includes MNCs like KEI Industries, Microsoft Corporation India Pvt Ltd, Asian Paints, Bajaj Auto Limited, Asian Paints and Adani Group.

Key financial indicators (audited)

Standalone	FY2023	FY2024*
Operating income (Rs. crore)	1023.2	1205.0
PAT (Rs. crore)	77.5	113.7
OPBDIT/OI (%)	11.1%	13.2%
PAT/OI (%)	7.6%	9.4%
Total outside liabilities/Tangible net worth (times)	1.3	1.0
Total debt/OPBDIT (times)	0.2	0.2
Interest coverage (times)	19.7	25.3

Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA’s calculations; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Current (FY2025)				Chronology of rating history for the past 3 years					
FY2025				FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs. crore)	Oct 17, 2024	Date	Rating	Date	Rating	Date	Rating
Fund-based – Cash credit	Long term	24.5	[ICRA]A (Stable)	04-Oct-23	[ICRA]A (Stable)	22-Aug-22	[ICRA]A- (Stable)	-	-
				13-Apr-23	[ICRA]A- (Positive)	04-Apr-22	[ICRA]A- (Stable)		
Non-fund based limits	Short term	675.5	[ICRA]A2+	04-Oct-23	[ICRA]A2+	22-Aug-22	[ICRA]A2+	-	-
				13-Apr-23	[ICRA]A2+	04-Apr-22	[ICRA]A2+		
Unallocated	Long term and short term	0.0	-	04-Oct-23	-	22-Aug-22	[ICRA]A- (Stable)/ [ICRA]A2+	-	-
				13-Apr-23	[ICRA]A- (Positive)/ [ICRA]A2+	04-Apr-22	-		

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Cash credit	Simple
Short-term – Non-fund based limits	Very Simple

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	675.5	[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 FY2023

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