

S.Subrahmanyam Construction Co. Private Limited

December 26, 2018

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term, Fund-based facilities	15.00	15.00	[ICRA]BBB- (Stable); reaffirmed
Short-term: Non-fund based facilities	25.00	25.00	[ICRA]A3; reaffirmed
Total	40.00	40.00	

Rationale

The ratings reaffirmation factors in the S. Subrahmanyam Construction Co. Private Limited's (SSCOPL) healthy order execution in FY2018 and in the current year. The ratings continue to factor in the healthy financial risk profile characterised by comfortable liquidity position and debt protections metrics. The ratings continue to draw comfort from the considerable experience of SSCOPL's promoters and its established track record for over seven decades in the construction industry. The ratings also factor in SSCOPL's reputed clientele and the established relationship with the customers, which help it in obtaining repeat orders.

The ratings, however, remain constrained by the company's high geographical and sectoral concentration risks as the projects are mainly concentrated in Tamil Nadu, catering to the industrial segment. Further, the ratings remain constrained by the moderate order book position as of September 2018, providing revenue visibility only for the next six months. The rating is also constrained by the intense competition in the domestic construction segment, which impacts the operating margins due to pricing pressure. In the absence of price escalation clauses for certain bulk materials, SSCOPL's profitability remains vulnerable to raw material price fluctuation risks, given the long project horizon.

Outlook: Stable

The Stable outlook reflects ICRA's expectation that SSCOPL will benefit from its established track record in the domestic construction industry and the extensive experience of its promoters. The outlook may be revised to Positive if the company's operational and financial risk profile improve on account of considerable growth in revenue and profitability, along with improvement in geographical and customer diversification. Conversely, the outlook may be revised to Negative if the profitability declines significantly or if there is any weakening in the capital structure or liquidity profile due to increased working capital requirements or stretched receivables.

Key rating drivers

Credit strengths

Significant experience of the management with an extensive operational track record – The company has an extensive track record of over seven decades, having begun its operations back in 1947 in the construction space. The promoters of SSCOPL, Mr. S. Srinivasan, Mr. S. Ramamurthy and Mr. R. Shankar, have extensive experience in the construction industry.

Established relationship with key customers ensures repeat orders – The company has executed large civil construction contracts for a reputed clientele that includes Ford, Apollo Tyres, Royal Enfield among others. Established relationship with the customers developed over the years, ensures repeat orders. Further, given the established operational track record of executing large projects along with a wide architect network, SSCOPL has been able to successfully secure new tenders over the years.

Comfortable financial profile characterised by healthy debt protection metrics and strong liquidity position – SSCOPL's financial profile remained healthy with comfortable debt protection as reflected by interest coverage & Total Debt/OPDITA of 3.6 times and 3.3 times in FY2018, respectively and low utilisation of cash credit borrowings. SSCOPL's debt profile as on March 31, 2018 comprised term loan from directors worth Rs.18.6 crore and cash credit borrowings worth Rs. 14.7 crore. Further, SSCOPL receives 10% as mobilisation advance from its clients and utilises the same for its working capital requirements upon commencement of work.

Credit challenges

High geographical and sectoral concentration – Despite its strong growth in FY2018, SSCOPL's scale of operation continues to remain moderate, with its projects primarily concentrated in Tamil Nadu. At present, SSCOPL has 15 ongoing projects catering to the industrial segment, mainly concentrated in Chennai. Hence, external factors such as adverse political and climatic conditions could result in delay in project execution and impact SSCOPL's profitability.

Moderate unexecuted order book position provides revenue visibility for the next six months – The current value of pending orders is only 0.9 times of revenue in FY2018, providing revenue visibility only for the six months of FY2019. Hence, the company's ability to win new orders in the short term remains a key rating sensitivity.

Intense competition in the construction segment exerts pressure on margins – Entities undertaking civil construction projects pass through a competitive bidding process, with bids made through tenders floated by the corresponding private player. Given the fragmented nature of the civil construction industry, SSCOPL is exposed to intense competition from a number of domestic construction players, thereby limiting its pricing flexibility.

Margins exposed to volatility in raw material prices – Cement, steel, aggregates and sand are the key raw materials for construction of building and civil infrastructure. The operating margins of civil structure contracts with a long project horizon (one to two years) are susceptible to fluctuations in raw material prices. Nevertheless, the presence of price escalation clause for some of its projects in the current order book mitigates the risk to an extent.

Liquidity position

The liquidity position of the company has remained strong due to the comfortable working capital position arising out of mobilisation advances received from its clients and regular bill collections. This in turn supports the liquidity profile of the company as evident from the low utilisation of its fund-based working capital limits along with healthy cash and liquid investments. Going forward, the company's liquidity position is likely to remain comfortable.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Construction Entities
Parent/Group Support	NA
Consolidation / Standalone	NA

About the company

S. Subrahmanyam Constructions Company Private Limited was established as a proprietorship concern called S. Subrahmanyam & Co. in 1947 by Mr. Subrahmanyam. The firm was involved in carrying out civil work for government projects in the earlier years. It was converted into a private limited company in 1996 and the current promoters of the company are Mr. S. Srinivasan, Mr. S. Ramamurthy and Mr. R. Shankar. It is a family owned and closely held company. At present, the company is predominantly involved in execution of civil contracts in the private industrial sector.

Key financial indicators (Standalone)

	FY2017 (Audited)	FY2018 (Audited)
Operating Income (Rs. crore)	161.5	185.5
PAT (Rs. crore)	5.0	6.4
OPBDIT/ OI (%)	6.2%	5.5%
RoCE (%)	27.9%	24.5%
Total Debt/ TNW (times)	0.9	1.2
Total Debt/ OPBDIT (times)	1.9	3.3
Interest Coverage (times)	3.1	3.6

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Current Rating (FY2019)					Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding as on September 2018 (Rs. crore)	Date & Rating in FY2019 December 2018	Date & Rating in FY2018 October 2017	Date & Rating in FY2017 April 2016	Date & Rating in FY2016 March 2016
1 Fund-based facilities	Long-Term	15.00	3.99	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)
2 Non-fund based facilities	Short-Term	25.00	25.00	[ICRA]A3	[ICRA]A3	[ICRA]A4	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based facilities	-	NA	-	15.00	[ICRA]BBB- (Stable)
NA	Non-fund-based facilities	-	NA	-	25.00	[ICRA]A3

Source: SSCOPL

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