

March 30, 2022

S.Subrahmanyan Construction Co. Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based/Cash Credit	15.0	-	-
Short-term – Non-fund Based	25.0	37.5	[ICRA]A3; reaffirmed
Long-term/Short-term – Unallocated	-	2.5	[ICRA]BBB-(Stable)/[ICRA]A3; reaffirmed
Total	40.00	40.00	

*Instrument details are provided in Annexure-1

Rationale

The reaffirmation of the ratings factors in S.Subrahmanyan Construction Co. Private Limited's (SSCOPL) extensive track record of over seven decades in the construction of industrial buildings, coupled with its experienced promoters. Further, the ratings positively factor in its comfortable financial profile, characterised by a comfortable capital structure (gearing of 0.4 times, TOL/TNW of 1.3 times as on March 31, 2021) and adequate coverage indicators with interest cover of around 3 times. ICRA has taken note of the established relationships with its reputed customers, which have resulted in repeat orders in the past.

The ratings, however, remain constrained by the company's modest scale of operations, as characterised by an operating income (OI) of Rs. 102.3 crore in FY2021, and the stiff competition in the construction industry with limited scope for margin expansion. The company's OI witnessed a YoY decline of 30% in FY2021, owing to temporary disruptions caused by the pandemic. Nevertheless, its revenues witnessed a rebound in 10M FY2022, along with an adequate order book of ~Rs. 268 crore as on January 31, 2022 (order book/operating income of 2.6 times of FY2021's OI), which provides adequate near-term revenue visibility. The ratings also factor in the vulnerability of its profitability to the fluctuations in raw material prices and labour costs, to the extent of project contracts without any built-in price-escalation clause.

The Stable outlook on the [ICRA]BBB- rating reflects ICRA's opinion that SSCOPL will continue to benefit from its extensive track record of operations, adequate order book, and its above-average financial risk profile.

Key rating drivers and their description

Credit strengths

Extensive track record – SSCOPL has a track record spanning over seven decades in the construction of industrial buildings. The company started its operations in 1947, by its promoter Mr. Subrahmanyan, in the construction space. Its Managing Director, Mr. R. Shankar, has nearly three decades of experience in the construction industry.

Established relationships with key customers – SSCOPL has an established relationship with key customers that ensures repeat orders and supports its order book. The company has a reputed customer profile that mitigates the counterparty risk to a large extent.

Comfortable capital structure, adequate coverage indicators and liquidity profile – The company has a comfortable capital structure, as illustrated by a gearing of 0.4 times as on March 31, 2021, supported by its relatively lower reliance on external borrowings. Its coverage indicators also remain adequate with an interest coverage and total debt/OPBDITA of 2.9 times and 2.5 times, respectively, in FY2021. Further, its liquidity position has remained adequate with unencumbered cash balances of Rs. 16.4 crore as on March 31, 2021.

Credit challenges

Modest scale of operations – SSCOPL’s scale of operations remain modest and its revenue declined to Rs. 102.3 crore in FY2021 (from Rs. 145.7 crore in FY2020), owing to temporary disruptions caused by the pandemic. Nonetheless, the company’s OI is expected to witness a rebound in FY2022, supported by its robust order book (pending order book of ~Rs. 268 crore as on January 31, 2022, which translates to an order book/operating income ratio of 2.6 times of FY2021’s OI). Going forward, its ability to achieve timely execution of the ongoing projects, steadily build its order book and grow its revenue further, on a sustained basis, will remain the key credit monitorable.

Intense competition in construction industry and high order book concentration – SSCOPL is exposed to intense competition in the construction industry, which limits its scope for margin expansion. With its presence primarily restricted to building construction work in Tamil Nadu and the competitive bidding process followed generally by the industry, amid intense competition, the company’s profitability remains constrained. The company’s order book remains concentrated with the top five projects accounting for nearly 84% of its pending order book as on January 31, 2022. Besides, it remains concentrated in terms of segment, with the entire order book comprising industrial building construction work, and in terms of geography, with over 95% of its projects located in Tamil Nadu, Karnataka, and Andhra Pradesh.

Profitability vulnerable to fluctuations in raw material prices and labour costs – SSCOPL’s profitability is susceptible to the fluctuations in raw material prices and labour costs. However, the company mitigates this risk to an extent as it has a price-escalation clause for raw materials and labour costs in most of its contracts.

Liquidity position: Adequate

SSCOPL’s liquidity has remained adequate with unencumbered cash balances of ~Rs. 16.4 crore as on March 31, 2021. Further, with modest debt serving obligations and no major capex commitments in the near term, it is expected to maintain an adequate liquidity profile. Overall, ICRA expects SSCOPL to be able to meet its near-term commitments through internal and external sources of cash and yet be left with sufficient cash surpluses.

Rating sensitivities

Positive factors – ICRA may upgrade SSCOPL’s ratings if it witnesses a sustained improvement in its scale of operation and profitability.

Negative factors – Pressure on SSCOPL’s ratings may arise if its liquidity position weakens or its profitability or scale deteriorates significantly.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Construction Entities
Parent/Group Support	Not applicable
Consolidation/Standalone	Standalone

About the company

S.Subrahmanyan Constructions Company Private Limited (SSCOPL) was established as a proprietorship firm called S. Subrahmanyan & Co. in 1947 by Mr. Subrahmanyan. It was converted into a private limited company in 1996 with its current Managing Director being Mr. R. Shankar. It is a family-owned and closely-held company that is predominantly involved in the construction of industrial buildings for reputed private players.

Key financial indicators (Audited)

SSCOPL	FY2020	FY2021
Operating Income (Rs. crore)	145.77	102.34
PAT (Rs. crore)	5.28	3.86
OPBDIT/OI (%)	6.51%	7.31%
PAT/OI (%)	3.62%	3.78%
Total Outside Liabilities/Tangible Net Worth (times)	1.35	1.28
Total Debt/OPBDIT (times)	2.06	2.52
Interest Coverage (times)	3.21	2.91

(Source: SSCOPL; ICRA)

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

Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
	Type	Amount Rated (Rs. crore)	Amount Outstanding as on March 01, 2022 (Rs. crore)	Date & Rating on	FY2021	FY2020	FY2019
				March 30, 2022	February 22, 2021	November 12, 2019	December 26, 2018
1 Fund-Based Facility – Cash Credit	Long-Term	-	-	-	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)
2 Non-Fund Based – Bank Guarantee	Short-Term	37.50	-	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A3
3 Unallocated	Long-Term/Short-Term	2.50	-	[ICRA]BBB-(Stable)/[ICRA]A3	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Short-term – Non-fund Based/Bank Guarantee	Very Simple
Long-term/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: 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	Non-fund Based – Bank Guarantee	-	-	-	37.50	[ICRA]A3
NA	Unallocated	-	-	-	2.50	[ICRA]BBB-(Stable)/[ICRA]A3

Source: SSCOPL and ICRA

Annexure-2: List of entities considered for consolidated analysis – Not Applicable

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