

## SAB Industries Limited

July 21, 2017

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term Bank Facilities (Term Loan)	3.26 (reduced from 7.00)	<b>CARE BB+; Negative</b> <b>[Double B Plus; Outlook:</b> <b>Negative]</b>	Reaffirmed
Long-term Bank Facilities (Cash Credit)	2.50	<b>CARE BB+; Negative</b> <b>[Double B Plus; Outlook:</b> <b>Negative]</b>	Reaffirmed
Long-term Bank Facilities (Line of Credit)	-	-	Withdrawn*
Short-term Bank Facilities	25.00 (enhanced from 15.00)	<b>CARE A4+</b> <b>[A Four Plus]</b>	Reaffirmed
<b>Total Facilities</b>	<b>30.76</b> <b>(Rupees Thirty crore and</b> <b>Seventy Six lakh only)</b>		

*Details of instruments/facilities in Annexure-1*

\*CARE has withdrawn the rating assigned to the line of credit facility of SAB Industries Limited, with immediate effect since the facility was not availed and hence stands cancelled.

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of SAB Industries Limited (SAB) continue to remain constrained by its modest and declining scale of operations and concentrated revenue stream. The ratings are further constrained by the competition from the organized and unorganized players in the industry. The ratings, however, derive strength from SAB's long track record of operations, experienced management team, comfortable order book and capital structure.

The ability of the company to receive steady flow of orders & timely execution of the same while maintaining its capital structure shall remain the key rating sensitivities. Timely receipt of contract proceeds and efficient working capital management shall also be the key rating sensitivities.

### Outlook: Negative

The 'Negative' outlook is on account of moderation in the company's operating performance which is reflected in the declining revenue and lower PBILDT margins in FY17 (refers to the period April 1 to March 31). However, the outlook may be revised to 'Stable' in a scenario where the company is able to improve its profitability and generate healthy cash accruals by increasing its revenue from higher margin giving projects.

### Detailed description of the key rating drivers

#### Key Rating Weaknesses

**Fluctuating and small scale of operations with declining PBILDT margins and stretched inventory period but comfortable capital structure:** The operating income of the company declined by ~23% during FY17 on account of lower execution of work orders. Furthermore, the PBILDT margins of the company deteriorated significantly in FY17 due to execution of lower margin government projects. However, on account of extraordinary income during the year, the PAT margins improved in FY17 to 20.94% (PY: 16.87%). Furthermore, on account of high networth (due to long and profitable track record of operations) and low debt outstanding, as on March 31, 2017, the capital structure of the company remained at a comfortable level with overall gearing ratio of 0.34x (0.49x), as on March 31, 2017. The debt coverage indicators marked by total debt to GCA ratio improved to 9.11x, as on March 31, 2017 (PY: 14.57x), however, interest

<sup>2</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

coverage ratio declined to 0.88x (PY: 3.51x) in FY17. This was mainly on account of decline in operating profits during the year.

As on March 31, 2017, the operating cycle of the company stood at an elongated level mainly due to high inventory level on account of the stalled Derabassi real estate project. The average cash credit limit utilization, however, remained at a comfortable level of about 29% for the 12-month period ended May 2017.

**Competition from organized and unorganized players:** The construction sector in India is highly fragmented with a large number of small and mid-sized players. This coupled with tendering process in order procurement results into intense competition within the industry. Additionally, continued increase in execution challenges including delays in land acquisition, regulatory clearances and elongated working capital cycle due to longer gestation period of the projects collectively put pressure on the credit profile of the players.

#### Key Rating Strengths

**Long track record with operations coupled with an experienced management team:** SAB has been in operations since the year 1983. The company is essentially controlled by the promoters who have considerable experience in EPC (Engineering, Procurement & Construction) of infrastructure projects. The Managing Director of the company, Mr R K Garg, has an industry experience of more than three decades. He is ably supported by a team of professionals, who have extensive experience in their respective domains.

**Comfortable order book position however with client concentration:** The confirmed orders with the company (to be executed in the next 12-18 months) stood at Rs.64.09 crore, as on March 31, 2017. However, the order book of the company is highly concentrated with majority of the projects from the same client- Indian Railways. Though, at present, the company is able to receive payments from its clients in a timely manner, timely realization going forward will be a critical factor for meeting liquidity requirements of the company in the future.

**Analytical approach:** Standalone

#### Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)  
[CARE's policy on default recognition](#)  
[Criteria for Short Term Instruments](#)  
[Rating Methodology for Infrastructure Sector Ratings](#)  
[Financial ratios – Non-Financial Sector](#)

#### About the Company

Incorporated in the year 1978 as SA Builders Ltd (SABL), the name of the company was subsequently changed to SAB Industries Ltd (SAB) in the year 1983. SAB is primarily engaged in the field of civil construction for multistoreyed housing colonies, hospitals, industrial buildings, flyovers, shopping malls, thermal power plants, hydel power & infrastructure projects, etc, on a turnkey basis.

The company belongs to the Steel Strips group of companies which is engaged in the manufacturing of automobile wheels, acrylic fiber and civil construction. SAB was also developing a multi-storied residential housing project, on a 6.7 acres of land, by the name "Steel Strips Tower", Derabassi, on the Chandigarh-Ambala Highway. However, the construction on the same has been put on hold since 2011 due to the subdued industry scenario.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	28.27	21.82
PBILDT	4.84	1.39
PAT	4.77	4.57
Overall gearing (times)	0.49	0.34
Interest coverage (times)	3.51	0.88

A: Audited

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History for last three years:** Please refer Annexure-2

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

**Annexure-1: Details of Instruments/Facilities**

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	2019	3.26	CARE BB+; Negative
Fund-based - LT-Line Of Credit	-	-	-	2.00	Withdrawn
Fund-based - LT-Cash Credit	-	-	-	2.50	CARE BB+; Negative
Non-fund-based - ST-Bank Guarantees	-	-	-	25.00	CARE A4+

**Annexure-2: Rating History of last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	3.26	CARE BB+; Negative	-	1)CARE BB+ (18-Jul-16)	1)CARE BB (29-Jul-15)	1)CARE BB (15-Jan-15) 2)CARE BB (25-Sep-14)
2.	Fund-based - LT-Line Of Credit	LT	-	-	-	1)CARE BB+ (18-Jul-16)	1)CARE BB (29-Jul-15)	1)CARE BB (15-Jan-15)
3.	Fund-based - LT-Cash Credit	LT	2.50	CARE BB+; Negative	-	1)CARE BB+ (18-Jul-16)	1)CARE BB (29-Jul-15)	1)CARE BB (15-Jan-15)
4.	Non-fund-based - ST-Bank Guarantees	ST	25.00	CARE A4+	-	1)CARE A4+ (18-Jul-16)	1)CARE A4 (29-Jul-15)	1)CARE A4 (15-Jan-15)

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