SAB Industries Limited
November 20, 2020

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	-	-	Rating continues to remain under ISSUER NOT COOPERATING category; Reaffirmed and Withdrawn
Short Term Bank Facilities	-	-	Rating continues to remain under ISSUER NOT COOPERATING category; Reaffirmed and Withdrawn
Total Bank Facilities	**-**		

Details of facilities in Annexure-1

Detailed Rationale, Key Rating Drivers and Detailed description of the key rating drivers

CARE has reaffirmed and withdrawn the outstanding ratings of 'CARE BB-; Stable/CARE A4; Issuer Not Cooperating+' [Double B Minus; Outlook: Stable/A Four; ISSUER NOT COOPERATING] assigned to the bank facilities of SAB Industries Limited (SAB) with immediate effect. The above action has been taken at the request of SAB and 'No Objection Certificate' received from the bank that has extended the facilities rated by CARE.

The ratings continue to remain constrained by the declining scale of operations in FY20 (Audited; refers to the period April 01 to March 31) and H1FY21 (Unaudited), coupled with exposure to funding & project execution risk pertaining to the residential real estate project and execution risk pertaining to the bio-gas project. The ratings are further constrained by the small order book position, concentrated revenue stream for the construction segment, stretched inventory period, cyclicality associated with the real estate industry, counterparty risk in the bio-gas project and intense competition in the construction sector. The ratings, however, derive strength from SAB's long track record of operations, experienced management team, improving PBILDT margins and comfortable capital structure.

Detailed description of the key rating drivers

Key Rating Weaknesses

Declining scale of operations and stretched inventory period: The operating income of the company declined by ~35% in FY20 and further by ~28% in H1FY21 (Unaudited), on a year-on-year (y-o-y) basis. The operating cycle of the company remained elongated at ~1358 days as on March 31, 2020 (PY: ~547 days) mainly due to high inventory levels pertaining to the real estate project under development.

Project execution risk: Earlier, the company had planned a residential real estate project by the name "SSL HIGHWAY TOWERS" on a 6.39 acres land area on Chandigarh-Ambala highway. However, the work on the project was put on hold in 2011 wherein the company had incurred a total cost of ~Rs. 36 crore, till then, from its own sources. However, in FY19, the company has revived the project and an additional cost of ~Rs. 107 cr. is projected to be incurred on the same (total project cost of ~Rs. 143 cr., with 36 cr. already incurred till FY11). The company plans to develop total saleable area of 49.23 lakh sq. feet with additional project cost proposed to be funded through term loan of Rs.60 cr. (yet to be tied up), customer advances of Rs.18 cr. and remaining through internal accruals/ promoters' contribution. The project is expected to be completed by FY23. The ability of the company to timely tie-up the debt is important for the smooth execution of the project within the envisaged timelines. Further, execution of the project within the cost & time estimates, ability of the company to achieve the envisaged sales at projected sales price and receive customer advances in a timely manner will also remain the key rating sensitivities.

The company is also undertaking another capex for setting-up of a bio-gas plant at Moonak, Punjab, at a total project cost of ~Rs. 19 crore with a total power generation capacity of 1.5 MW. The company has already incurred a cost of ~Rs. 3.15 crore in FY18-FY19 period from the internal accruals generated/ realization of claims recoverable during the period. The project is envisaged to be funded through term loan of Rs.14.50 crore (tied-up) and remaining through promoters' contribution (including internal accruals/ claims recoverable etc.). The company has signed a long-term Power Purchase Agreement (PPA) for 20 years, with the Punjab State Power Corporation Limited (PSPCL; rated- CARE BB+/A4+) for off-take of the power generated. However, there is no escalation clause present in the PPA signed by the company along with no long-term fuel supply agreement in place, which exposes SAB to the vagaries of price fluctuation. Going forward, the ability of the company to achieve the envisaged sales and complete the project within the projected time and cost estimates will remain the key rating sensitivities.

Counterparty risk: SAB is exposed to counter party risk as Punjab State Power Corporation Ltd (PSPCL) is the sole customer for its proposed bio-gas project and is having a below average financial risk profile as demonstrated by losses at the net level in FY19 and leveraged capital structure. Any delays by PSPCL in payments to SAB, could adversely affect its liquidity position. However, as per the PPA, PSPCL will provide SAB an irrevocable and revolving Letter of Credit (LC) issued by any Nationalized Bank equal to one month's bill amount reducing the counter-party risk to an extent.

Small order book position and client concentration risk: As on September 30, 2019, the company had a small order book of Rs. 12.25 cr. Further, the order book of the company is highly concentrated with all the projects from the same client- Indian Railways.

Cyclicality associated with the real estate industry: Revival of the real estate project also exposes the company to the inherent risks associated with the real estate sector. The real estate sector has direct linkage with the general macroeconomic scenario, interest rates and level of disposable income available with individuals, thus making the sector highly cyclical. The industry is highly fragmented in nature with the presence of a large number of organized and unorganized players spread across various regions. Many townships are emerging in cities like Dera Bassi, Punjab and small players are coming with projects in these areas, which further add to the prevailing industry competition.

Intense competition in the construction sector: The construction sector in India is highly fragmented with a large number of small and mid-sized players. This coupled with the 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 of operations coupled with an experienced management team: SAB has been in operations since the year 1983. The company is essentially controlled by promoters who have considerable experience in Engineering Procurement Construction (EPC) of infrastructure projects. Though the promoters have limited experience in the power generation business, they are highly experienced in various other business fields. The Chairman of the company, Mr. R.K. Garg, has an industry experience of more than 3 decades spread across infrastructure, auto-anciliary and textiles industry. He is ably supported by a team of professionals, who have extensive experience in their respective domains.

Improving PBILDT margins and comfortable capital structure: The PBILDT margins of the company stood comfortable and increased to 35.66% in FY20 against losses at PBILDT level in FY19. Consequently, the PAT margins of the company improved to 23.79% in FY20 from 3.94% in FY19. The capital structure of the company continued to remain at a comfortable level marked by debt-to-equity and overall gearing ratios of 0.18x and 0.25x, as on March 31, 2020 (PY: 0.14x and 0.15x, respectively). The total debt to GCA ratio of the company improved to 6.59x, as on March 31, 2020 from 16.79x, as on March 31, 2019 on account of improvement in profitability at net the level. The interest coverage ratio stood at 4.94x in FY20. SAB availed moratorium from the bank in light of Covid-19, as per the extant Reserve bank of India (RBI) guidelines for debt obligations due in March-August, 2020 period.
In H1FY21 (UA), though the operating income of the company declined by ~28% compared to H1FY20 (UA), the PBILDT margins improved to ~52% compared to losses at the PBILDT level in the same period last year.

Analytical approach: Not Applicable

Applicable Criteria

Policy on Withdrawal of ratings
Policy in respect of Non-cooperation by issuer
Criteria on assigning ‘outlook’ and ‘credit watch’ 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
Rating Methodology for Power Generation Projects
Liquidity Analysis of Non-Financial Sector Entities

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. The company is primarily engaged in the field of civil construction for multi-storeyed housing colonies, hospitals, industrial buildings, flyovers, shopping malls, thermal power plants, hydal power & infrastructure projects, etc. on a turnkey basis. SAB is also developing a multi-storied residential housing project by the name "SSL HIGHWAY TOWERS", Derabassi, on the Chandigarh-Ambala Highway. SAB is also planning to set-up a bio-gas plant at Moonak, Punjab. The company belongs to the Steel Strips group of companies which is engaged in the manufacturing of automobile wheels, acrylic fiber and civil construction. Steel Strips Wheels Limited is engaged in the manufacturing of steel wheel rims for the automotive segment and Indian Acrylics Limited is engaged in the manufacturing of acrylic fibre and yarn. SAB also has a group concern- Steel Strips Limited (SSL), which was earlier engaged in the manufacturing of Hot Rolled (HR) and Cold Rolled (CR) sheets, however, there are no on-going operations as on date. The businesses of SAB and SSL are proposed to be amalgamated for which necessary approvals are awaited from the regulatory authorities.

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Brief Financials (Rs. crore)	FY19 (A)	FY20 (Abridged)
Total operating income	25.72	16.60
PBILDT	-0.13	5.92
PAT	1.01	3.95
Overall gearing (times)	0.15	0.25
Interest coverage (times)	Nm	4.94

A: Audited
Nm: Not meaningful

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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	-	-	-	0.00	Withdrawn
Fund-based - LT-Cash Credit	-	-	-	0.00	Withdrawn
Non-fund-based - ST-Bank Guarantees	-	-	-	0.00	Withdrawn

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	-	-	1)CARE BB-; Stable; ISSUER NOT COOPERATING* (06-Oct-20)	1)CARE BB-; Stable (05-Sep-19)	1)CARE BB+; Stable (08-Jun-18)	1)CARE BB+; Negative (21-Jul-17)

2.	Fund-based - LT-Line Of Credit	LT	-	-	-	-	-	1)Withdrawn (21-Jul-17)
3.	Fund-based - LT-Cash Credit	LT	-	-	1)CARE BB-; Stable; ISSUER NOT COOPERATING* (06-Oct-20)	1)CARE BB-; Stable (05-Sep-19)	1)CARE BB+; Stable (08-Jun-18)	1)CARE BB+; Negative (21-Jul-17)
4.	Non-fund-based - ST-Bank Guarantees	ST	-	-	1)CARE A4; ISSUER NOT COOPERATING* (06-Oct-20)	1)CARE A4 (05-Sep-19)	1)CARE A4+ (08-Jun-18)	1)CARE A4+ (21-Jul-17)

Annexure-3: Detailed explanation of covenants of the rated facilities- Not Applicable

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	Non-fund-based - ST-Bank Guarantees	Simple

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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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