

## SAB Industries Limited

September 05, 2019

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long term Bank Facilities	2.63 (reduced from Rs 4.54 crore)	<b>CARE BB-; Stable; (Double B Minus; Outlook: Stable)</b>	Revised from CARE BB+; Stable (Double B Plus; Outlook: Stable)
Short term Bank Facilities	7.50 (reduced from Rs 27.00 crore)	<b>CARE A4 (A Four)</b>	Revised from CARE A4+; (A Four Plus)
<b>Total</b>	<b>10.13 (Rs. Ten crore and Thirteen lakh only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of SAB Industries Limited (SAB) takes into account declining scale of operations and losses at the PBILDT level in FY19 (Audited; refers to the period April 01 to March 31) and Q1FY20 (UA), coupled with exposure to funding and 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, cyclical nature 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 and comfortable capital structure.

The ability of the company to receive steady flow of orders in the construction segment, timely execute the same and receive the contract proceeds in timely manner, timely achieve the financial closure for its real estate project, execution of the projects (both real estate and bio-gas) within the cost & time estimates, ability of the company to achieve the envisaged sales at projected sales price and receive customer advances for its real estate project in a timely manner will remain the key rating sensitivities. Further, any new capex and funding mix for the same, impacting the credit profile, will also remain the key rating sensitivities.

### Detailed description of the key rating drivers

#### Key Rating Weaknesses

**Declining scale of operations and losses at the PBILDT level:** The operating income of the company declined by ~21% in FY19 and further by 87% in Q1FY20 (Provisional), on a year-on-year basis, on account of lower work orders executed. Further, lower execution of work orders and execution of relatively lower margin giving orders led to losses at the PBILDT level in FY19 and Q1FY20 (as compared to PBILDT margins of 10.08% and 4.73%, in FY19 and Q1FY19, respectively). However, operations in the past have been supported by receipt of past claims (under the construction segment). The business requirements of the company in FY19 and Q1FY20 were met though claims recoverable and cash and bank balance maintained by the company (amounting to Rs. 8.40 cr., as on March 31, 2018 and Rs. 4.66 cr., as on March 31, 2019).

**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 with company planning to launch the project in FY21. 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

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

\*Issuer did not cooperate; Based on best available information

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 project is expected to achieve its COD (commercial operation date) by end of March-2020. Further, the company has signed long-term Power Purchase Agreement (PPA) for 20 years, with the Punjab State Power Corporation Limited (PSPCL; CARE BB+/A4+' for its bank facilities and CARE BBB (SO); Negative for Non-SLR bonds) for off-take of the power generated leading to low sales risk. However, with no escalation clause present in PPA signed by the company along with no long-term fuel supply agreement in place, it 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 off-taker for its proposed bio-gas project and is having below average financial risk profile as demonstrated by losses at the net level in FY18 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 March 31, 2019 the company had a small order book of Rs. 13.69 cr. (constituting around 0.53 times the total operating income for FY19; compared to an order book of Rs. 39.30 Cr., as on March 31, 2018). Further, the order book of the company is highly concentrated with all the projects from the same client- Indian Railways.

**Cyclicality associated with 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 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 the 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-ancillary and textiles industry. He is ably supported by a team of professionals, who have extensive experience in their respective domains.

**Comfortable capital structure:** The capital structure of the company continued to remain at a comfortable level as marked by long-term debt-to-equity and overall gearing ratios of 0.14x and 0.15x, as on March 31, 2019 (PY: 0.13x and 0.17x, respectively). The slight improvement in the overall gearing ratio was on account of lower debt outstanding at the end of the year due to scheduled repayment of the term loans and comparatively lower utilization of the working capital borrowings. The total debt to GCA ratio of the company improved to 16.79x, as on March 31, 2019 from 28.48x, as on March 31, 2018 on account of lower debt outstanding at the end the year and improved profitability at net the level. This was mainly on account of extraordinary income of Rs. 3.32 crore during FY19 (past claims decreed in favour of the company).

**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](#)

[Rating Methodology for Private Power producers](#)

**Liquidity Position: Adequate-** The average cash credit limit utilization remained at a comfortable level of about 41% for the 12 months period ended July-2019. As on March 31, 2019, SAB had free cash and bank balances of ~Rs. 4.66 cr. The current and quick ratios continued to remain comfortable at 4.75x and 1.50x, respectively (PY: 3.15x and 1.05x, respectively). However, the operating cycle of the company remained elongated at 547 days as on March 31, 2019 (PY: 487 days) due to high inventory level on account of the real estate project under development. The company has a total debt repayment obligation of Rs. 1.24 cr. in FY20, which is proposed to be met through the internal accruals and claims recoverable (GCA of Rs. 1.41 cr. in FY20). Past claims amounting to Rs.3.32 cr. and Rs.4.13 cr. were decreed in the favour of the company in FY19 and Q1FY20, respectively. Further, the company is undertaking projects for setting-up of a residential real-estate project to be completed in FY23 and a bio-gas unit to be completed in FY20. The financial closure for the real-estate project is yet to be achieved while the work on the project has already started. The financial closure for bio-gas project has been achieved and the project is expected to achieve COD by March, 2020 while re-payment for the loan availed for the project is expected to commence from October-2020.

### 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)	FY18(A)	FY19(A)
Total operating income	32.44	25.72
PBILDT	3.27	-0.13
PAT	0.40	1.01
Overall gearing (times)	0.17	0.15
Interest coverage (times)	1.39	Nm

A: Audited P: Provisional

**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 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	-	-	September-2019	0.13	CARE BB-; Stable
Fund-based - LT-Cash Credit	-	-	-	2.50	CARE BB-; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	7.50	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	0.13	CARE BB-; Stable	-	1)CARE BB+; Stable (08-Jun-18)	1)CARE BB+; Negative (21-Jul-17)	1)CARE BB+ (18-Jul-16)
2.	Fund-based - LT-Line Of Credit	LT	-	-	-	-	1)Withdrawn (21-Jul-17)	1)CARE BB+ (18-Jul-16)
3.	Fund-based - LT-Cash Credit	LT	2.50	CARE BB-; Stable	-	1)CARE BB+; Stable (08-Jun-18)	1)CARE BB+; Negative (21-Jul-17)	1)CARE BB+ (18-Jul-16)
4.	Non-fund-based - ST-Bank Guarantees	ST	7.50	CARE A4	-	1)CARE A4+ (08-Jun-18)	1)CARE A4+ (21-Jul-17)	1)CARE A4+ (18-Jul-16)

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

**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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**About CARE Ratings:**

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