

February 24, 2023

Chandra Singh Contractor: Long-term rating downgraded, short-term rating reaffirmed; outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Overdraft Limits	5.00	5.00	[ICRA]BB- (Stable); rating downgraded from [ICRA]BB; Outlook revised to Stable from Negative
Long-term – Fund-based Term Loan	1.25	1.25	[ICRA]BB- (Stable); rating downgraded from [ICRA]BB; Outlook revised to Stable from Negative
Short-term – Non-fund Based- Bank Guarantee	0.90	0.90	[ICRA]A4; reaffirmed
Total	7.15	7.15	

*Instrument details are provided in Annexure-I

Rationale

The rating action reflects the significant moderation in Chandra Singh Contractor's (CSC) scale of operations over the last two years. ICRA expects the overall revenue to remain much lower than the pre-Covid level going forward. CSC clocked revenues of around Rs. 15 crore over the last two fiscals, against Rs. 61.3 crore in FY2020. Notwithstanding the expected improvement in scale of operations in the current fiscal to around ~Rs. 30 crore, the overall scale of operations is likely to remain modest in the medium term. CSC has received new order inflows of ~Rs. 42 crore in 10M FY2023 translating into order book to operating income (OB/OI) ratio of 1.85 times albeit at a lower base of its OI in FY2022. The execution has also been impacted by the client concentration in the education and tourism industries, both of which are adversely hit by the pandemic with substantial decline in new capex outlay.

The ratings remain constrained by the geographical concentration risk in the order book, with orders executed primarily in Jaipur (Rajasthan), along with high client concentration risk over the last few years. The ratings consider the intense competition and fragmented nature of the industry, which could constrain its profitability. ICRA notes that CSC is a proprietorship firm and hence, any significant withdrawal from the capital account by the proprietor could adversely affect its net worth as well as capital structure, which remains a risk. The rating action also considers the elongation in the working capital cycle with increase in working capital intensity to 71.2% and 82.3% in FY2022 and FY2021, respectively, vis-à-vis 20.3% in FY2020, given the elongation of the receivables.

The ratings, however, positively factor in CSC's track record of successful project execution in the civil construction industry and its status as a Class-AA contractor with the Government of Rajasthan. ICRA takes note of the firm's moderate leverage and satisfactory debt coverage metrics. Most contracts executed by the firm have a built-in price escalation clause for key raw materials, which partially mitigate the impact of commodity inflation on CSC's profitability.

The Stable outlook on the rating reflects ICRA's expectation that CSC will be able to maintain its credit profile over the medium term, supported by its orders-in-hand and moderate leverage position.

Key rating drivers and their description

Credit strengths

Long track record of executing civil construction projects in Rajasthan; long relationship with established client base - CSC executes civil construction projects for the government and private players in Rajasthan since 1975. The firm is registered as a Class-AA contractor with the Government of Rajasthan, with a track record of successful project execution in the civil construction industry. CSC has well-established relationships with its customers, which have enabled the firm to build long relationships with its customers and to secure repeat orders from the same.

Healthy profitability metrics - CSC's operating margins remains healthy, despite a decline in its scale of operations. Most contracts executed by the firm have a built-in price escalation clause for key raw materials, which partially mitigates the impact of volatile raw material prices on its profitability.

Credit challenges

Modest scale of operation with limited order book in hand - The firm clocked revenues of Rs. 14.6 crore in FY2021 and Rs. 15.2 crore in FY2022, against Rs. 61.3 crore in FY2020. The execution has been impacted by the client concentration in the education and tourism industries. The adverse impact of the pandemic on its major clients translated into reduced capacity expansion during the last two years and consequently limited order inflow. The order book as of November 2021 stood at ~Rs. 25.33 crore. Despite improvement from FY2023, driven by new orders, it remains lower than the pre-Covid level. There has been an elongation in the working capital cycle with an increase in working capital intensity to 71.2% and 82.3% in FY2022 and FY2021, respectively, vis-à-vis 20.3% in FY2020, given the elongation of the receivables.

Risks related to proprietorship firm structure - CSC is a proprietorship firm, and there has been continuous capital withdrawals by the proprietor from the business in the past. High capital withdrawals adversely impacted its net worth over the past few years with net worth declining to ~Rs. 13-14 crore from Rs. 17.1 crore in FY2020. However, the leverage position remains comfortable due to low dependence on borrowings.

High client and geographical concentration risks - CSC remains exposed to high geographical concentration risk, with orders executed largely in Jaipur and some parts of Rajasthan. Moreover, the order book is restrained to a limited set of clients, which exposes it to high client concentration risk. The top five clients accounted for 91%, 100%, and 97% of the revenues in FY2019, FY2020 and FY2021, respectively. Additionally, it faces segment-wise concentration as all the outstanding orders are from the civil construction segment. The top three of the seven pending orders constituted 68% of the outstanding order book as on November 26, 2021.

Intense competition in industry - The civil construction segment in Rajasthan is characterised by intense competition with various contractors having Class-AA category registration. This leads to highly competitive bids, thereby putting pressure on the margins of industry players. However, CSC's long association with the clients alleviates the risk to a certain extent.

Liquidity position: Adequate

The firm's liquidity position is adequate with the cash flow from operations expected to be sufficient to meet the debt servicing obligations. It has liquidity buffer in the form of unutilised working capital lines. The fund-based limit utilisation has averaged at 41% during the last 12 months that ended in September 2022.

Rating sensitivities

Positive factors - The rating could be upgraded if the firm demonstrates a healthy and sustained improvement in its scale and profitability, with healthy orders inflow and execution leading to an overall improvement in its liquidity and debt coverage metrics. Further, improvement in working capital intensity would be crucial for a rating upgrade.

Negative factors - Continued pressure on the scale or decline in operating profitability, or a stretch in the working capital cycle or significant capital withdrawal could exert negative pressure on the firm's ratings.

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

Chandra Singh Contractor (CSC) was established as a proprietorship firm by Mr. Chandra Singh in 1975. The firm is located in Jaipur, Rajasthan and is a registered Class-AA contractor with the Public Works Department (PWD). It mainly undertakes civil construction work for commercial buildings, educational institutes and hotels. CSC undertakes civil, electrical, plumbing, heating, ventilation and air conditioning (HVAC) and artistic sandstone/marble works. The firm initially dealt with public sector projects and later diversified into private sector projects. Its activities are focused on Jaipur and some other parts of Rajasthan. In addition, CSC operates one 1.5 MW of wind power plant in Jaisalmer (Rajasthan), which was commissioned in late FY2015 and has 20 years PPA with Jodhpur Discom at feed in tariff of Rs. 5.64/unit (fixed for the term of the PPA).

Key financial indicators (audited)

CSC Standalone	FY2021	FY2022
Operating income	14.6	15.2
PAT	2.1	2.6
OPBDIT/OI	24.0%	23.4%
PAT/OI	14.5%	17.0%
Total outside liabilities/Tangible net worth (times)	0.6	0.3
Total debt/OPBDIT (times)	1.7	0.9
Interest coverage (times)	5.3	14.2

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2023)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as on Dec 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
				Feb 24, 2023	Dec 24, 2021	Sep 3, 2020	-
1 Fund-based - Overdraft Limits	Long term	5.00	-	[ICRA]BB- (Stable)	[ICRA]BB (Negative)	[ICRA]BB+ (Stable)	-
2 Fund-based - Term Loan	Long term	1.25	0.70	[ICRA]BB- (Stable)	[ICRA]BB (Negative)	[ICRA]BB+ (Stable)	-
3 Unallocated Limits	Long term	-	-	-	-	[ICRA]BB+ (Stable)	-
4 Non-fund Based - Bank Guarantee	short term	0.90	-	[ICRA]A4	[ICRA]A4	[ICRA]A4+	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Overdraft Limits	Simple
Long-term – Term Loan	Simple
Short-term – Non-fund Based – Bank Guarantee	Very Simple

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: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Overdraft Limits	NA	NA	NA	5.00	[ICRA]BB- (Stable)
NA	Term Loan	FY2021	NA	FY2023- FY2024	1.25	[ICRA]BB- (Stable)
NA	Bank Guarantee	NA	NA	NA	0.90	[ICRA]A4

Source: Company

Annexure II: List of entities considered for consolidated analysis: Not Applicable

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