December 30, 2022

C S Construction Company Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-fund based limits	453.00	478.00	[ICRA]A- (Stable); reaffirmed
Fund-based limits	47.00	22.00	[ICRA]A- (Stable); reaffirmed
Total	**500.00**	**500.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation reflects the improved operating profitability in FY2022 and fund infusion by directors/promoters of C S Construction Company Private Limited (CSCCPL) in the current financial year, which has helped in reducing the external leverage. The rating favourably factors in the healthy order book position (OB/OI - 4.5 times of FY2022 revenue), supported by fresh order inflows, which provides healthy medium-term revenue visibility. The rating continues to derive comfort from the company's established track record in executing strategic works for the Defence Research and Development Organisation (DRDO), Ministry of Defence (MoD), which have low counterparty credit risk and its exclusive tie-ups with international vendors for the supply of critical equipment. The rating draws comfort from the inclusion of price escalation clause in its new projects, thereby limiting its exposure to the raw material price risk.

The rating, however, is constrained by the company's moderate scale of operations, though the recent order inflows have improved the order book position and is expected to support an improvement in its scale. ICRA notes that its working capital intensity had increased over the last two years, primarily due to higher billing and execution during the last quarter of the financial year, which results in higher receivable and inventory. Moreover, over the last two years, CSCCPL availed term loans in place of mobilisation advances, which has increased its overall borrowings. ICRA considers the improvement witnessed during FY2023 with decline in receivable and inventory, which along with the fund infusion by the promoters has reduced the dependence on working capital borrowings. The rating also factors in the high client and project concentration as it derives revenues primarily from the projects undertaken for the MoD with top five projects constituting ~90% of the pending order book as on September 30, 2022. The rating notes the company's exposure to sizeable contingent liabilities in the form of bank guarantees, mainly for contractual performance and mobilisation advances. Nonetheless, ICRA draws comfort from its execution track record and absence of invocation of guarantees in the past. CSCCPL remains exposed to the execution risk associated with the contracts as over 60% of orders are in the early stage of execution with less than 20% progress as of September 2022.

The Stable outlook on the long-term rating reflects ICRA's opinion that CSCCPL will continue to benefit from its execution track record with DRDO and MoD, its involvement in strategic contracts, extensive experience of the promoters in the construction business and its healthy order book position.

Key rating drivers and their description

Credit strengths

Experienced promoters in construction industry and exclusive tie-up with strategic material suppliers – CSCCPL has been executing projects for the MoD for over two decades. Its healthy execution track record has helped in building its bidding eligibility and thereby secure repeat orders. The company has exclusive tie-ups with some international vendors for the supply of critical equipment, which also improves its competitive position.

Sizeable order book position and healthy revenue visibility – CSCCPL has a sizeable pending order book of Rs. 1,483 crore as on September 30, 2022, which is ~4.5 times of the revenues in FY2022. This provides healthy medium-term revenue visibility. The current order book comprises orders mainly civil and engineering work for the defence sector from DRDO, MoD, Border Roads Organisation (BRO). Recently, the company has secured an order of ~Rs. 290 crore from DRDO, thereby further improving the order book position.

Stable operating profitability and comfortable financial risk profile – The company's operating profitability has been steady in the past and has recently improved to 10.5% in FY2022 from 8.9% in FY2021, despite the impact of Covid-19 pandemic. In the past, it was exposed to raw material price variation risk. However, this risk is mitigated now as all the ongoing contracts have the provision for price variation of key raw materials such as cement and steel, which protects the profitability to an extent. Its liquidity position has improved over the years with adequate infusion of the funds by the promoters, especially in FY2023 and sufficient cushion in the unutilised fund-based limits.

Credit challenges

Moderate scale of operations with concentrated order book and execution risk – The company has moderate scale of operations with an operating income (OI) of Rs. 326.95 crore, primarily due to recovery from the execution challenges posed by the Covid-19 pandemic. However, the order book position is healthy and has improved as it has secured new orders. With the pandemic-related execution challenges subsiding and billing started in most of the ongoing projects, the execution is expected to scale up in the medium term. The company expects to register revenue of around Rs. 450 crore in FY2023. Moreover, the order book continues to remain concentrated on few projects from the MoD, as the top five projects accounted for ~90% of the order book as on September 30, 2022. It remains exposed to the execution risk associated with the contracts as over 60% of orders are in the early stage of execution with less than 20% progress. CSCCPL, like any other construction company, is exposed to risks inherent in the construction sector such as time/cost overruns, slowdown in new order inflows, high exposure to non-fund based limits vis-à-vis its net worth, etc. Its ability to complete the projects as per the scheduled timeline is crucial to meet its contractual obligations and receive repeat orders in future.

Competitive nature of industry and sizeable non-fund based exposure – CSCCPL is exposed to the cyclicality inherent in the construction industry and intense competition in the tender-based contract award system, resulting in volatility in revenues and pressure on margins. However, its long presence and established relationship with the clients provide comfort. It is exposed to sizeable contingent liabilities in the form of bank guarantees (~Rs. 302 crore as on September 30, 2022), mainly towards performance guarantee, mobilisation advance and security deposits. Nonetheless, ICRA draws comfort from CSCCPL's healthy execution track record and no invocation of guarantees in the past.

Increased leverage and working capital intensity – External borrowings including term loans for capex and project-related mobilisation advance term loans have increased in FY2022, following the capex incurred and advances availed for the new projects, leading to a gearing of 1.04 times and TOL/ TNW of 1.71 times as on March 31, 2022 (0.68 times and 1.33 times, respectively, as on March 31, 2021). Moreover, its working capital intensity has increased over the last two years owing to an increase in the debtors and inventory. However, ICRA draws comfort from the improved position in YTD FY2023 and the reduced dependence on the fund-based limits, with fund infusion by the promoters in FY2023.

Liquidity position: Adequate

The company's liquidity profile is adequate, supported by unencumbered cash, bank balances, fixed deposits and unutilised fund-based limit aggregating to around Rs. 112 crore as on September 30, 2022. The availability of the project-related mobilisation advances further supports the liquidity.

Rating sensitivities

Positive factors – Significant increase in scale of operations and improvement in profitability, along with consistently healthy order book position, resulting in improvement in credit metrics could lead to a rating upgrade. Specific credit metrics for a rating upgrade includes interest coverage increasing over 4 times on a sustained basis.

Negative factors – Significant delays in project execution, leading to a decline in its scale and operating profitability, or any sizeable debt-funded capital expenditure, or a sustained increase in working capital cycle impacting its liquidity and credit metrics could put pressure on the rating. Specific credit metrics that could lead to a rating downgrade includes TOL/TNW increasing over 1.5 times on a prolonged basis.

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

Established in 2005, CSCCPL undertakes civil and electrical engineering work for the MoD. The company's affairs are handled by Mr. Rahul Bhuchar, Mr. Rohit Bhuchar and Mr. Rishi Bhuchar, who are supported by a team of professionals. It is registered with the DRDO under CIV-IV and ED-IV category, which allows it to undertake civil and electrical projects awarded by the same.

Key financial indicators (audited)

CSCCPL standalone	FY2021	FY2022
Operating income	277.4	326.9
PAT	8.6	10.5
OPBDIT/OI	9.8%	10.5%
PAT/OI	3.1%	3.2%
Total outside liabilities/Tangible net worth (times)	1.33	1.71
Total debt/OPBDIT (times)	3.47	4.49
Interest coverage (times)	1.96	2.43

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	Current rating (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Dec 30, 2022	Sep 23, 2021	Sep 11, 2020	Aug 19, 2019
1	**Non-fund based – BG**	Long term	478.00	-	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**
2	**Fund-based – OD/CC**	Long term	22.00	-	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Non-fund based limits – Bank guarantees	Very Simple
Long-term – Fund-based limits – OD/CC	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	**Non-fund based - Bank guarantee**	NA	NA	NA	478.00	[ICRA]A- (Stable)
NA	**Fund-based - Overdraft/ Cash credit**	NA	NA	NA	22.00	[ICRA]A- (Stable)

Source: Company

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

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