June 28, 2024

Chennai Radha Engineering Works (P) Limited: Long-term rating upgraded to [ICRA]A+(Stable); short-term rating reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based limits	65.00	115.00	[ICRA]A+(Stable); upgraded from [ICRA]A(Stable)/assigned for enhanced amount
Short-term fund-based limits	0.00	20.00	[ICRA]A1; assigned
Long term/Short term – Non-fund based limits	230.00	230.00	[ICRA]A+(Stable)/[ICRA]A1; long-term rating upgraded from [ICRA]A(Stable); short-term rating reaffirmed
Long term/Short term – Sublimit^	(271.00)	(272.00)	[ICRA]A+(Stable)/[ICRA]A1; long-term rating upgraded from [ICRA]A(Stable) and assigned for enhanced amount; short-term rating reaffirmed and assigned for enhanced amount
Long term/Short term – Sublimit^	($6.6 million)	($6.6 million)	[ICRA]A+(Stable)/[ICRA]A1; long-term rating upgraded from [ICRA]A(Stable); short-term rating reaffirmed
Total	**295.00**	**365.00**	

**Instrument details are provided in Annexure-I*

^ Sub-limits under long-term/short-term non-fund based limit

Rationale

The rating action takes into consideration Chennai Radha Engineering Works (P) Limited's (CREW) improved order book position as on March 31, 2024, providing healthy revenue visibility over the near to medium term. The outstanding order book position improved to Rs. 4,832.65 crore as of March 2024 (i.e. 3.57 times of FY2024 revenues) from Rs. 2,438 crore as of March 2023. The revenues improved significantly over the last three years and are expected to remain healthy, going forward, supported by a strong outstanding order book.

Although the revenues witnessed some moderation in FY2024 owing to lower execution in the engineering, procurement and construction (EPC) segment compared to FY2023, the operating profits remained healthy at ~18%. CREW's financial risk profile remains healthy with comfortable leverage and debt coverage metrics and a strong liquidity position. Though the operating margin will moderate from the FY2024 levels, it will continue to be healthy. This, along with the limited long-term debt, will keep the debt coverage and leverage metrics strong over the medium term. Further, CREW's liquidity position remains comfortable with free cash & liquid investments of Rs. 137.2 crore as of March 2024.

The ratings also factor in the established track record of CREW in providing operations and maintenance (O&M) services for bulk material handling systems, mainly at the thermal power stations and ports. Although the company is exposed to renewal risk for the ongoing contracts, its past track record and established relationships with reputed customers mitigate the risk to an extent.

The ratings are, however, constrained by high customer concentration risk with ~74% of its revenues generated from its top-five customers with moderately high dependence on a single customer, Tamilnadu Generation & Distribution Corporation

Limited (TANGEDCO), that has a modest financial profile. However, ICRA notes the priority payment mechanism for the payments from TANGEDCO to CREW as the O&M activity remains critical to its operations and the track record of regular payments, which mitigates the risk to an extent. ICRA also notes that the EPC order inflow depends on capital investments by the end-user industry and thus, the revenues may be lumpy, linked to the execution of such projects. CREW faces competition from the larger domestic and multinational companies in this segment and its performance is susceptible to the investment cycle in the thermal power and the port sectors. Further, the company has a high working capital intensity on account of the large receivables.

ICRA also notes the income tax raid conducted on the company in September 2023. As per the management, there has been no demand notice/adverse findings from the department. Any adverse developments regarding the same would be a key monitorable.

The Stable outlook on the ratings reflects ICRA's opinion that CREW's revenues and accruals will be supported by its comfortable order inflow. Also, the company will continue to benefit from its established track record in the O&M of material handling systems.

Key rating drivers and their description

Credit strengths

Established player with extensive experience in O&M segment - CREW, incorporated in 1984, has a track record of more than three decades in providing O&M services (~43% of total revenues in FY2024) for bulk material handling systems, especially for the coal handling and ash handling plants at the thermal power stations and ports. The company commands a healthy market share in the O&M segment, especially in the power sector. The company has further diversified into the EPC and mining sectors and built a healthy order book, providing revenue visibility for the medium term. In FY2024, O&M services comprised 43% of the revenue, EPC 19%, mining 22%, and product sales, railway and mobile harbour cranes made up the rest.

Healthy order book position - The company's order book position remained strong at Rs. 4,832 crore as on March 31, 2024 (i.e. 3.57 times of FY2024 revenues), a growth of 2.3x compared to Rs. 2,438 crore as on March 31, 2023, providing healthy revenue visibility for the near to medium term. The order book is diversified across mining (46%), O&M (32%), EPC (21%) and railways (1%). In FY2024, a major order was received from South Eastern Coalfields Limited, and the mining segment contributed Rs. 2,204 crore to the order book. The O&M order book position remained healthy at Rs. 1,554 crore, primarily backed by the renewal and tenure extension of the existing contracts as well as the receipt of new orders from TANGEDCO, Paradip Port Authority and Adani Ports and Special Economic Zone. The EPC order book contributed Rs. 1,015 crore to the order book, dominated by TANGEDCO orders. A healthy order flow and the timely renewal of contracts due for expiry will be key to sustaining the company's revenue growth.

Comfortable financial profile and liquidity – CREW's financial profile is characterised by healthy margins and comfortable coverage indicators, aided by the company's cost control measures in the mining segment and the write-back of high provisions made in FY2023. The gearing remained healthy at 0.3 times as on March 31, 2024. Moreover, CREW's coverage indicators were comfortable, reflected in its interest coverage of 16.3 times, total debt/OPBITDA of 0.9 times and NCA/total debt of 84% as on March 31, 2024. The company's liquidity position remained comfortable with cash and liquid investments of Rs. 137.2 crore as on March 31, 2024, along with sufficient cushion in the fund-based working capital limits. The credit metrics and profitability indicators are likely to stay comfortable over the medium term with stable revenues, profits and cash accruals, backed by healthy order inflows and limited capex plans.

Credit challenges

Customer concentration risk, lumpy revenue from EPC segment; revenues exposed to cyclicality in thermal power and port sectors – The company is exposed to customer concentration risks with ~74% of its revenues generated from its top five customers with moderately high dependence on a single customer, TANGEDCO, that has a modest financial profile. However, ICRA notes the priority payment mechanism for the payments from TANGEDCO to CREW as the O&M activity remains critical to its operations and the track record of regular payments for the services offered by CREW to TANGEDCO, which mitigates the risk to an extent.

The revenues generated from the EPC segment and related-product sales are volatile, given the lumpy nature of the contracts in this segment. Further, this segment may face execution delays due to delays in receiving the necessary approvals. Also, the order book in this segment is impacted by the capex cycle in the thermal power and the port sectors. The contracts also remain exposed to the fluctuations in raw material prices, given the fixed-price orders in the EPC segment. Nonetheless, CREW's ability to pass through the increase in raw material prices by providing certain margin in the order value mitigates the risk to an extent.

Exposure to execution risks and intense competition – CREW is exposed to execution risks of large projects in the mining segment wherein the company is relatively less experienced. CREW is also exposed to execution risks in the O&M segment with delays in completion of the civil part of the projects and in the EPC segment because of delays in receiving the necessary approvals. Further, the company's exposure to intense competition from both domestic and global players with a local presence could have an adverse impact on its profitability metrics.

Working capital-intensive nature of business – The company has a high working capital intensity of 31% on account of the large receivables, given the nature of its industry. The debtor days have remained in the range of 60-90 days and the inventory days have been stable at 30-42 days over the last five fiscals.

Liquidity position: Adequate

CREW has an adequate liquidity profile, reflected in its sizeable unencumbered cash balance of Rs. 137.2 crore as on March 31, 2024, along with unutilised working capital limits of 30% and limited capital expenditure plans. Further, the cash accruals are expected to remain adequate to cover the debt repayments.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if the company demonstrates a sustained improvement in its revenues and profitability with the diversification in the end-user industries, while maintaining the working capital metrics.

Negative factors – Pressure on the ratings could emerge if there is a consistent decline in profitability or revenues due to lower-than-anticipated order inflows, or if there is a substantial stretch in the working capital cycle.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial statements

About the company

CREW was established as a proprietorship entity in 1984, before being converted into a private limited company in 2005. The company supplies O&M services and undertakes turnkey projects on an EPC basis for bulk material handling systems, mainly for ports and thermal power stations. In recent years, the company's order book has majorly consisted of mining, O&M and EPC orders. It also provides support services in some ports like stevedoring, operates mobile harbour cranes at the Paradip and Karaikal ports and offers support services for surface mining. CREW also handles the installation of electrical equipment and wiring works, interior furnishing works and testing works for railway coaches. CREW's facility is near Ponneri, Chennai.

Key financial indicators

CREW	FY2023	FY2024*
Operating income	1530.1	1351.4
PAT	115.5	143.5
OPBDIT/OI	12.9%	18.4%
PAT/OI	7.5%	10.6%
Total outside liabilities/Tangible net worth (times)	0.5	0.4
Total debt/OPBDIT (times)	0.9	0.9
Interest coverage (times)	12.5	16.3

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore*

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021
					June 28, 2024	Mar 09, 2023	Mar 06, 2023	Mar 21, 2022	Jan 05, 2021
1	**Cash credit**	Long term	115.00	-	**[ICRA]A+ (Stable)**	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**
2	**Non fund-based limits**	Long term and short term	230.00	-	**[ICRA]A+ (Stable)/ [ICRA]A1**	**[ICRA]A (Stable)/ [ICRA]A1**	**[ICRA]A (Stable)/ [ICRA]A1**	**[ICRA]A (Stable)/ [ICRA]A1**	**[ICRA]A (Stable)/ [ICRA]A1**
3	**Fund-based limits**	Short term	20.00	-	**[ICRA]A1**	-	-	-	-
4	**Sublimit***	Long term and short term	(272.00)	-	**[ICRA]A+ (Stable)/ [ICRA]A1**	**[ICRA]A (Stable)/ [ICRA]A1**	**[ICRA]A (Stable)/ [ICRA]A1**	**[ICRA]A (Stable)/ [ICRA]A1**	**[ICRA]A (Stable)/ [ICRA]A1**
5	**Sublimit***	Long term and short term	($6.6 million)	-	**[ICRA]A+ (Stable)/ [ICRA]A1**	**[ICRA]A (Stable)/ [ICRA]A1**	**[ICRA]A (Stable)/ [ICRA]A1**	**[ICRA]A (Stable)/ [ICRA]A1**	**[ICRA]A (Stable)/ [ICRA]A1**
6	**Unallocated limits**	Long term and short term	-	-	-	-	-	**[ICRA]A (Stable)/ [ICRA]A1**	-

**Sublimit of non-fund based facility*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based limits	Simple
Short term – Fund-based limits	Simple
Long term/Short term – Non-fund based limits	Very simple
Long term/Short term – Sublimit	Very simple
Long term/Short term – Sublimit	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	Long-term fund-based limits	NA	NA	NA	115.00	[ICRA]A+(Stable)
NA	Short term – Fund-based limits	NA	NA	NA	20.00	[ICRA]A1
NA	Long term/Short term – Non-fund based limits	NA	NA	NA	230.00	[ICRA]A+(Stable)/[ICRA]A1
NA	Long term/Short term – Sublimit	NA	NA	NA	(272.00)	[ICRA]A+(Stable)/[ICRA]A1
NA	Long term/Short term – Sublimit	NA	NA	NA	($6.6 million)	[ICRA]A+(Stable)/[ICRA]A1

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

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

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About ICRA Limited:

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