

Press Release

Chirag Construction Company

March 29, 2019



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 7.50 Cr.
Long Term Rating	ACUITE B+ / Outlook: Stable
Short Term Rating	ACUITE A4

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE B+** (**read as ACUITE B plus**) and short term rating of '**ACUITE A4** (**read as ACUITE A four**) to the Rs. 7.50 crore bank facilities of Chirag Construction Company. The outlook is '**Stable**'.

CCC, established in 2008, is a Madhya Pradesh-based civil construction firm promoted by Mr. Mehrudeen Khan. The firm, Class 1A civil contractor, is engaged in the construction of roads for government organisations such as Madhya Pradesh Rural Road Development Authority and Public Work Departments (PWD).

Analytical Approach

Acuité has considered the standalone business and financial risk profile of CCC to arrive at the rating.

Key Rating Drivers

Strengths

- Experienced management**

CCC was established in 2008 by Mr. Mehrudeen Khan. The proprietor holds more than two decades of experience in the civil construction industry. This has helped the firm to establish relationships with government customers.

- Average financial risk profile**

The financial risk profile of CCC is average marked by low net worth, moderate debt protection measures and moderate gearing. The net worth of CCC is modest at Rs.3.39 crore as on 31 March, 2018 as against Rs.2.41 crore as on 31 March, 2017. The gearing of CCC has improved to 1.29 times as on March 31, 2018 as compared to 1.41 times as on March 31, 2017. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 2.98 times as on 31 March, 2018 as against 3.24 times as on 31 March, 2017. Interest Coverage Ratio (ICR) has improved at 4.48 times in FY2018 as compared to 3.01 times in FY2017. Debt Service Coverage Ratio (DSCR) has also improved to 3.25 times in FY2018 from 1.31 times in FY2017. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.42 times as on 31 March, 2018 as against 0.36 times as on 31 March, 2017.

Weaknesses

- Modest scale of operations and declining profitability**

The scale of operations of CCC is modest marked by operating income of Rs.24.93 crore in FY2018 and Rs.12.30 crore in FY2017. Further, CCC's operating margins have declined to 8.52 per cent in FY2018 from 12.89 per cent in FY2017 and 10.72 per cent in FY2016. This is on account of increase in raw material cost. The net profit margin stood at 5.41 per cent as on March 31, 2018 as against 6.00 per cent as on March 31, 2017. Further, there is limited visibility of operating income in the near to medium term as there are no current orders to be executed with CCC.

- Working capital intensive operations**

The operations of CCC are moderately working capital intensive marked by Gross Current Assets (GCA) of 121 days in FY2018 however improved from 154 days in FY2017. The receivables period stood at 11 days in FY2018 as compared to 15 days in FY2017. CCC maintains little inventory marked by inventory days of 0 and 1 in FY2018 and FY2017 respectively. The payables period stood at 96 days in FY2018 as against 166 days in FY2017. The average bank limit utilisation stood high at ~96 percent for the last three months ended February 2018.

Acuité believes that the ability of CCC to improve its working capital cycle to reduce reliance on working capital limit will be a factor of key rating sensitivity.

- Tender based nature of business resulting in highly competitive industry**

CCC operates in highly competitive industry due to presence of many organised and unorganised players. The business of CCC depends upon the number of tenders floated by the government and their bid success rate. Further, CCC's performance is susceptible to cyclical in construction/infrastructure segment.

Liquidity Position:

CCC has average liquidity marked by average net cash accruals to its maturing debt obligations. CCC generated cash accruals of Rs.1.06-1.84 crore during the last three years through 2017-18, while its maturing debt obligations were in the range of Rs.0.20-Rs. 0.80 crore over the same period. CCC maintains unencumbered cash and bank balances of Rs.2.72 crore as on March 31, 2018. The current ratio of CCC stood moderate at 1.22 times as on March 31, 2018.

Outlook: Stable

Acuité believes that CCC will maintain 'Stable' outlook over the medium term from its promoters extensive industry experience and moderate financial risk profile. The outlook may be revised to 'Positive' if there is a sustained and substantial increase in scale of operations and efficient working capital management in its financial risk profile. Conversely, the outlook may be revised to 'Negative' if the firm reports lower than expected revenue or if the firm undertakes any debt-funded capital expenditure which would increase its debt-equity profile.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	24.93	12.30	11.78
EBITDA	Rs. Cr.	2.12	1.58	1.26
PAT	Rs. Cr.	1.35	0.74	0.61
EBITDA Margin (%)	(%)	8.52	12.89	10.72
PAT Margin (%)	(%)	5.41	6.00	5.15
ROCE (%)	(%)	27.66	25.61	35.68
Total Debt/Tangible Net Worth	Times	1.29	1.41	1.33
PBDIT/Interest	Times	4.48	3.01	5.35
Total Debt/PBDIT	Times	1.85	1.84	2.09
Gross Current Assets (Days)	Days	121	154	23

Status of non-cooperation with previous CRA (if applicable)

Not applicable.

Any other information

None.

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-14.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument
<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
16-Oct-2018	Proposed Bank Facility	Long Term	1.05	ACUITE B+ Issuer not co-operating*
	Cash Credit	Long Term	2.45	ACUITE B+ Issuer not co-operating*
	Bank Guarantee	Short Term	4.00	ACUITE A4 Issuer not co-operating*
07-Oct-2016	Cash Credit	Long Term	2.45	ACUITE B+ / Stable (Assigned)
	Bank Guarantee	Short Term	4.00	ACUITE A4 (Assigned)
	Proposed Working Capital Demand Loan	Long Term	1.05	ACUITE B+ / Stable (Assigned)

* Issuer not co-operating, based on best available information

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.07	ACUITE B+ / Stable (Reaffirmed)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	5.02	ACUITE A4 (Reaffirmed)
Proposed	Not Applicable	Not Applicable	Not Applicable	0.41	ACUITE B+ / Stable (Reaffirmed)

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About Acuité Ratings & Research:

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