

Press Release

Chandra Nirman Private Limited

November 05, 2019

Rating Downgraded



Total Bank Facilities Rated*	Rs. 26.50 Cr.
Long Term Rating	ACUITE BB+ / Outlook: Stable (Downgraded from ACUITE BBB- /Stable)
Short Term Rating	ACUITE A4+ (Downgraded from ACUITE A3)

* Refer Annexure for details

Rating Rationale

Acuite has downgraded the long-term rating to '**ACUITE BB+**' (read as **ACUITE double B plus**) from '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and short-term rating to '**ACUITE A4+**' (read as **ACUITE A four plus**) from '**ACUITE A3**' (read as **ACUITE A three**) on the Rs.26.50 crore bank facilities of Chandra Nirman Private Limited (CNPL). The outlook is '**Stable**'.

The rating downgrade is in the view of moderation in the operating performance of the company against Acuite's expectation, which was mainly on account of slower pace of order execution.

Chhattisgarh-based, CNPL was incorporated in 2005 and is promoted by Mr. Saurabh Agarwal and Mr. Sameer Agarwal. The company undertakes infrastructure development projects related to water supply, sewerage, buildings dams and roads for government and semi government entities. CNPL is registered as 'A-5' (highest in the scale of A1 to A5) class contractor with PWD, Chhattisgarh.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of the CNPL to arrive at this rating.

Key Rating Drivers

Strengths

- **Long operational track record and experienced promoters**

CNPL was founded by Mr. Shyam Lal Agarwal and his family members in 1974 and since then it undertakes different types of civil constructions projects like water supply, sewerage, buildings, dams and roads for government and semi government entities. CNPL is being promoted by the second line of management, comprising Mr. Saurabh Agarwal and Mr. Sameer Agarwal. The promoters possess experience of more two decades in the infrastructure sector.

Acuite believes that the company has been able to establish long-standing relationship with various government as well as private clients backed by promoter's extensive industry experience.

- **Moderate financial risk profile**

The financial risk profile continues to be moderate marked by moderate net worth of Rs.17.45 crore as on 31 March 2019 as against Rs.14.25 crore in the previous year. The gearing is low at 0.44 times as on 31 March 2019 as against 0.63 times in the previous year. The total debt of Rs.7.63 crore as on 31 March 2019 includes short-term borrowings of Rs.6.77 crore, long-term debt of Rs.0.65 crore and interest free unsecured loan of Rs.0.21 crore. Interest Coverage Ratio (ICR) is healthy, however declined to 4.94 times in FY2019 from 7.48 times in the previous year due to increase in interest cost. Total Outside Liabilities to Tangible Net Worth (TOL/TNW) stood at 2.00 times as on 31 March 2019 as against 1.84 times in the previous year. Acuite believes that the company will maintain its financial risk profile in the absence of major debt funded capex plan.

Weaknesses

- **Healthy albeit slow moving order book**

CNPL had order book position of Rs.478.41 crores as on September, 2019 and most of the project work was allocated one to two years ago. CNPL was able to complete work of only 14 % of its total order book over the same period and the rest is expected to complete in next two years, which signifies the slow execution of its order book. Moreover, there is no fresh contract added in the order book since December, 2018. Acuite believes that timely execution of order book would be key rating sensitivity.

- **Customer concentration risk as well as tender based nature of business**

CNPL is exposed to customer concentration risk, as about 50 percent of orders of the company are coming from Chhattisgarh and remaining 50 percent from Madhya Pradesh (MP). However, the risk is mitigated as the company is dealing with government bodies for very long time and receives regular tenders from them.

Further, the nature of business is tender based and the company faces intense competition in the industry. The company's success ratio of winning the bids is to the tune of 60-70 per cent.

- **Working capital intensive nature of operations**

CNPL operations are working capital intensive by nature which is marked by gross current asset day (GCA) of 199 during FY2019 as against 141 days for FY2018. This is on account of increase in inventory of Rs.12.22 crore as on 31 March 2019 as against Rs.4.51 crore in the previous year. The average bank limit utilisation for the past one year ended in August, 2019 stands at 85%. Moreover, the creditors are also stretched at Rs.25.52 as on 31 March, 2019 against Rs.15.23 crore as on 31st March, 2018.

Rating Sensitivity

- Timely completion of the order book and fresh orders to added in the order book
- Improvement in working capital cycle

Material covenants

None

Liquidity: Adequate

CNPL has adequate liquidity marked by adequate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.2-4 crore during the three years through 2017-19, while its maturing debt obligations were in the range of Rs.0.40-0.77 crore over the same period. The cash accruals of the company are estimated to remain around Rs.6-11 crore during 2020-22, while its repayment obligations are estimated to be around Rs.0.24-0.40 crore. The company's operations are working capital intensive as marked by gross current asset (GCA) days of 199 in FY2019. However, the reliance on working capital borrowings were moderate around 85%. The company maintains unencumbered cash and bank balances of Rs.0.09 crore as on March 31, 2019. The current ratio of the company stood at 0.99 times as on March 31, 2019. Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of adequate cash accrual and no major repayments over the medium term.

Outlook: Stable

Acuite believes that CNPL's outlook will remain 'Stable' over the medium term on the back of the company's strong order book and experienced management. The outlook may be revised to 'Positive' in case the company generates higher than expected growth through successful execution of large projects while maintaining comfortable liquidity profile. Conversely, the outlook will be revised to 'Negative' in case of elongation of working capital cycle days.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	54.75	57.79	55.94
EBITDA	Rs. Cr.	5.75	6.62	3.65
PAT	Rs. Cr.	3.20	4.01	1.77
EBITDA Margin	(%)	10.50	11.45	6.53
PAT Margin	(%)	5.85	6.95	3.16
ROCE	(%)	23.97	30.05	20.19
Total Debt/Tangible Net Worth	Times	0.44	0.63	0.91
PBDIT/Interest	Times	4.94	7.48	3.92
Total Debt/PBDIT	Times	1.19	1.29	2.24
Gross Current Assets (Days)	Days	199	141	102

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

Acuite is yet to receive the latest No Default Statement (NDS) from the rated entity, despite repeated requests and follow-ups.

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-51.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.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
08-August-2018	Cash Credit	Long Term	7.50	ACUITE BBB- / Stable (Upgraded)
	Cash Credit	Long Term	3.00	ACUITE BBB- / Stable (Assigned)
	Bank Guarantee	Short Term	7.00	ACUITE A3 (Upgraded)
	Bank Guarantee	Short Term	3.00	ACUITE A3 (Assigned)
	Bank Guarantee	Short Term	6.00	ACUITE A3 (Assigned)
08-January-2018	Cash Credit	Long Term	7.50	ACUITE BB+ / Stable (Assigned)
	Bank Guarantee	Short Term	7.00	ACUITE A4+ (Assigned)

***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	7.50	ACUITE BB+ (Withdrawn)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	7.00 (Enhanced from Rs.3.00 crore)	ACUITE BB+ / Stable (Downgraded from ACUITE BBB-/ Stable)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE A4+ (Downgraded from ACUITE A3)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	12.50 (Enhanced from Rs.9.00 crore)	ACUITE A4+ (Downgraded from ACUITE A3)

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About Acuite Ratings & Research:

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