

Press Release

Ciscons Constructions Private Limited

September 16, 2021

Rating Reaffirmed



Total Bank Facilities Rated*	Rs.25.00 Cr.
Long Term Rating	ACUITE BB/ Stable (Reaffirmed)
Short Term Rating	ACUITE A4+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed its long-term rating of '**ACUITE BB**' (read as **ACUITE double B**) and short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs.25.00 Cr. bank facilities of Ciscons Constructions Private Limited (CCPL). The outlook is '**Stable**'.

About the company

Ciscon Constructions Private Limited is a Hyderabad based company incorporated in the year 2013. The company is promoted by Mr. Narra Rama Krishna and Ms. Nimmagadda Harshitha. It is engaged in execution of civil works. The company does works such as construction of buildings, foundation works, plumbing works, and back fillings works among others. The company is primarily engaged in executing works at thermal power plants.

Rationale for Rating Reaffirmation

The rating reaffirmed on the bank facilities of CCPL factors in its experienced management, moderate profitability margins and moderate order book position. However, these strengths are offset by its decline in revenues for FY21, working capital intensive operations, competitive and fragmented industry and susceptibility of revenues and profitability to tender based nature of operations.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of CCPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management; and moderate order book position providing medium term revenue visibility**
CCPL has been engaged in execution of civil works for nearly a decade. The company is promoted by Mr. Narra Rama Krishna, Ms. Nimmagadda Harshitha and others, are supported by well-qualified and experienced team of professionals to execute the projects. The company operates in the states of Andhra Pradesh, Telangana, Uttar Pradesh, Tamil Nadu and Madhya Pradesh; providing geographic diversification in its work execution. However, 100 percent of the order book caters to only BHEL providing significant customer concentration risk. These orders are to be executed in Telangana and Tamil Nadu states. The company has an unexecuted order book position of Rs.257.48 Cr as on July 31, 2021. This provides strong revenue visibility for the next 2-3 years of time. Out of the aforementioned order book, the company is planning to execute Rs.60-70 Cr in FY2022 and remaining in FY2023 & FY2024. Acuite believes that the promoter's extensive industry experience will aid CCPL's business risk profile over the medium term.

- **Moderate financial risk profile**

The financial risk profile of the company has remained moderate with moderate capital structure and debt protection metrics. The networth of the company stood at Rs.6.16 Cr and Rs.5.69 Cr as on March 31, 2021 (Provisional) and 2020 respectively. The gearing stood at 0.99 times as on March 31, 2021 (Provisional) and 1.16 times as on March 31, 2020. This is on account of decline in debt levels. Debt protection metrics – Interest coverage ratio and debt service coverage ratio stood at 2.84 times and 1.77 times as on March 31, 2021 (Provisional) respectively as against 2.79 times and 1.69 times as on March 31, 2020 respectively. TOL/TNW stood at 3.20 times and 4.45 times as on March 31, 2021 (Provisional) and 2020 respectively. Acuite believes that the financial risk profile of the company is expected to remain moderate over the medium term on account of moderate cash accruals and no significant debt-funded capex plans.

Weaknesses

- **Decline in revenues over the review period FY19-21; although expected improvement in top line from FY22**
Modest scale of operations; dip in FY20 revenue due to impact of Covid-19 the funds are diverted to Covid-19 relief and due to expected slow-down in receivables collection, the company didn't raise the bills and slow down their work execution. This resulted in decline in revenue in FY21 to Rs.27.40 Cr. However, backed by moderate order book position the revenues of the company are expected to improve from FY22. Moreover, the company generated turnover of Rs.11.81Cr for 5M of FY22 till August 2021. The profitability margins of the company stood at 8.66 percent in FY21 (Provisional), as against 4.24 percent in FY20. The improvement in EBITDA margin in FY21 (Provisional) is on account of tender based operations and mostly executing direct works. Acuite believes that CCPL's scale of operations is likely improve in FY22 and remain moderate over the medium term given the timely execution and billing of its unexecuted order book in hand.
- **Tender based nature of operations and Competitive & fragmented industry**
CCPL is into civil work projects, wherein the sector is marked by the presence of several mid to large sized players. The risk becomes more pronounced as tendering is based on minimum amount of bidding on contracts, and susceptibility to inherent cyclicity in the infrastructure segment. Further, it is dependent on State Government's thrust on irrigation and other infrastructure works. Acuite believes that CCPL's revenues and margins are susceptible to the competitive bidding scenario.
- **Working capital intensive operations**
The working capital management of the company remained working capital intensive with high GCA days at 258 days as on March 31, 2021 (Provisional) as against 191 days as on March 31, 2020. The elongated GCA days are on account of stretch in debtor days and inventory days. Due to delay in receivables on account of Covid-19 the company couldn't raise the bills and slowed down their work execution, which led to increase in inventory levels too in FY21. On the other hand in order to meet the working capital requirements the company has taken leverage on creditors. The working capital limits of the company remained utilized at ~61 percent for the last six months ended July 31, 2021. Acuite believes that the operations of the CCPL will remain moderately intensive in the medium term too.

Rating Sensitivity factors

- Any further deterioration in working capital management leading to deterioration in financial risk profile and liquidity
- Lower-than-expected revenue or profitability leading to lower net cash accruals

Material Covenants: None

Liquidity Position: Adequate

CCPL has adequate liquidity marked by adequate net cash accruals as compared to its maturing debt obligations. CCPL generated net cash accruals of Rs.1.48 Cr for FY2021 (Provisional) vis-à-vis maturing debt obligations of Rs.0.47 Cr over the same period. The cash accruals are estimated to be around Rs.3.00-8.00 Cr during FY2022-24 vis-à-vis repayment obligations in the range of Rs.0.35 Cr to Rs.0.50 Cr. CCPL maintained unencumbered cash and bank balances of Rs.0.06 Cr as on March 31, 2021 (Provisional). The current ratio stood modest at 1.71 times as on March 31, 2021 (Provisional). The working capital limits of the company remained ~61 utilized for the last six months ended July, 2021. Acuite believes that the company's liquidity is expected to remain adequate over the medium term.

Outlook: Stable

Acuite believes that CCPL will maintain a 'Stable' outlook over the medium term backed by its experienced management and healthy revenue visibility. The outlook may be revised to 'Positive' in case of higher-than-expected growth in its revenues while maintaining its profitability margins and improving its working capital management. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital management or any significant withdrawal of partner's capital leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	27.40	47.17
PAT	Rs. Cr.	0.47	0.46
PAT Margin	(%)	1.72	0.97
Total Debt/Tangible Net Worth	Times	0.99	1.16
PBDIT/Interest	Times	2.84	2.79

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

None

Any other information

None

Applicable Criteria

- Default Recognition – <https://www.acuite.in/view-rating-criteria-52.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-51.htm>
- Application of 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/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
02-July-2020	Cash Credit	Long Term	3.00	ACUITE BB/ Stable (Reaffirmed)
	Bank Guarantee	Short Term	22.00	ACUITE A4+ (Reaffirmed)
11-Feb-2019	Cash Credit	Long Term	3.00	ACUITE BB/Stable (Assigned)
	Bank Guarantee	Short Term	12.00	ACUITE A4+ (Assigned)
	Proposed Bank Facility	Short Term	10.00	ACUITE A4+ (Assigned)

*Annexure – Details of instruments rated

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Canara Bank	Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE BB/Stable (Reaffirmed)
Canara Bank	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A4+ (Reaffirmed)
Not Applicable	Proposed	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A4+ (Reaffirmed)

Contacts

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About Acuité Ratings & Research:

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