

Cherian Varkey Construction Company Private Limited (Revised)

March 27, 2023

Ratings

Facilities	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	84.0	CARE A-; Stable	Reaffirmed
Short-term bank facilities	195.0	CARE A2+	Reaffirmed

Details of facilities in Annexure-1

Rationale and key rating drivers

The ratings assigned to the bank facilities of Cherian Varkey Construction Company Private Limited (CVCC) continue to derive strength from vast experience of the promoters in the construction sector, long track record of operations, healthy operating profit margins, comfortable capital structure and liquidity position. The ratings are, however, constrained by CVCC's relatively moderate scale of operations, moderate order book position with geographical concentration and presence in highly competitive tender-based industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in the scale of operations to over ₹500 crore while maintaining PBILDT margin of over 15% on a sustained basis.

Negative factors

- Decrease in the scale of operation below ₹200 crore and decline in the profitability on a sustained basis.
- Increase in the debt level with bank term debt to gross cash accrual (TDGCA) of above 3.0x on a sustained basis.

Analytical approach:

Standalone

Outlook: Stable

The outlook is stable as the company is likely to maintain comfortable capital structure with healthy liquidity position and profitability in the medium term.

Key strengths

Vast experience of the promoters in the construction sector

Cherian Varkey, founder of CVCC, has over six decades of experience in the field of civil construction having started his career as Junior Engineer in Neyveli Lignite Corporation in 1960. His sons Saji V Cherian, having around three decades of experience and Reji M Cherian with over 26 years of experience look after the construction contracts, while the third son, Biju C Cherian with around two decades of experience looks after the ready-mix concrete manufacturing and the housing division.

Long track record of operations with well-equipped machinery

Though CVCC was incorporated in 2000, its inception dates back to 1972 when Cherian Varkey started a proprietorship firm which was then converted to a private limited entity. The company, over the years, developed its expertise in the construction of foundations, buildings, roads, railway lines, marine bridges, road over bridges, railway bridges, airports, large factories and commercial buildings with multiple basements, power stations, marine structures, metro stations, metro viaducts etc., During 2005, CVCC started CVC ready-mix plant at Kumbalam for the commercial production of high-quality concrete. The company has its own fleet of machinery, such as concrete batching plants, transit mixers, asphalt mix plant, hydraulic piling rigs, spider boom pump, paver machines, tower cranes, etc. The company keeps upgrading its machinery which enables to deliver complex projects on time.

Healthy operating profit margin

CVCC normally bids for only high margin projects and does not bid aggressively for all the projects. The metro project works such as viaducts, Military Engineer Services including air enclave projects (CGAE), marine construction works such as construction works of private jetty, wharf, quay, etc offers better operating profit margins for the company. Furthermore, with the availability of its own machineries and lower hiring charges, the PBILDT margin continues to be healthy at around 15% for the past four

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE Ratings Ltd.'s publications

years ended March 2022. The PBILDT margin dropped marginally to 14.77% in FY22 from 15.69% in FY21 due to increase in raw material prices.

Comfortable capital structure and debt protection metrics

The capital structure of CVCC stood comfortable with overall gearing of 0.52x as on March 31, 2022, as against 0.39x as on March 31, 2021. With lower working capital borrowings, the interest coverage stood comfortable at 6.13x in FY22 (PY: 6.64x). The debt coverage indicators also stood comfortable with TDGCA of 3.91x as on March 31, 2022 (PY: 2.45x).

Key weaknesses

Moderate order book position with geographical concentration

CVCC undertakes construction contracts in infrastructure, residential and commercial segments, with specialisation in major bridges, including pre-stressed structures, etc. The major clients include Kerala Public Works Department, National Highways Authority of India (NHAI; rated 'CARE AAA/ Stable'), etc. The order book position declined and stood at ₹287.08 crore as on January 31, 2023 as against ₹481.4 crore as on December 2021, which translates to 1.15x of the total operating income (TOI) of FY22. This apart the company has L1 orders of ₹386.84 crore as on January 31, 2023. More than 80% of the orders are concentrated in Kerala which exposes it to socio-economic risks pertaining to a single region.

Relatively moderate scale of operations

The scale of operations continued to remain moderate with the TOI of ₹250.66 crore in FY22 which has declined over the years from ₹405 crore in FY19 on account of the slowdown in execution following COVID-19 lockdown restrictions.

Highly competitive tender-based industry

There is limited revenue diversity, as contracts are executed mostly in Kerala. The revenue is thus not only vulnerable to the progress on these projects but also to the local socio-economic factors. Apart from 10%-20% of direct orders, rest of its work orders are tender-based and the revenues are dependent on the company's ability to bid successfully for these tenders. The profit margins are exposed to pressure because of the competitive nature of the industry.

Industry and prospects

According to the Infrastructure and Project Monitoring Division of the Ministry of Statistics and Program Implementation (MoSPI), the country had 1,559 projects in the pipeline, worth INR 26.7 trillion (US \$352.3 billion), as of May 1, 2022. Of the total, the projects in the road transport and highway sector account for the highest number of projects in the pipeline, equivalent to 53.6%; which is followed by railways (13.5%), petroleum (8.7%), coal (7.6%), power (5.1%), and water resources (2.6%), among others. The government programmes, such as Atmanirbhar Bharat, which is expected to boost domestic industries, micro, small and medium enterprises (MSMEs) and the Pradhan Mantri Gati Shakti National Master Plan, which aims to drive economic growth through infrastructure development, are also expected to attract investment to the construction industry in the coming years. The government has allocated a total of ₹19,518 crore to all metro projects across India in the Union Budget 2023-24.

Liquidity: Adequate

The liquidity of the company is adequate with sufficient cushion in accruals of ₹26.20 crore in FY22 against term debt repayment obligations of ₹4.19 crore in FY23. CVCC's average working capital utilization stood comfortable at around 50% for the 12 months period ended December 2022. Its unutilized bank lines are more than adequate to meet its incremental working capital needs over the next one year. The Current ratio of CVCC stood at 2.47 as on March 31, 2022, due to lower Working Capital utilization. The company had unencumbered cash and bank balance of ₹114.92 Crore as on March 31, 2022 maintained in the form of fixed deposits.

Applicable criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Construction](#)

About the Company and Industry

Industry Classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Industrials	Construction	Construction	Civil Construction

Cherian Varkey Construction Company Private Limited (CVCC) was incorporated during the year 1972 as a proprietorship entity by Cherian Varkey and was later converted to a private limited company on March 31, 2000. The company is closely held by the promoter, Cherian Varkey, and his three sons. CVCC has its experience in the construction of foundations, buildings, roads, railway lines, marine bridges, road over bridges, railway bridges, airports, large factories and commercial buildings with multiple basements, power stations, marine structures, metro stations, metro viaducts etc. CVCC also has a ready-mix concrete manufacturing division and a housing division that undertake small-scale real-estate projects.

Brief Financials (₹ crore)	31-03-2021 (A)	31-03-2022 (A)	6mFY23 (UA)
Total operating income	256.19	250.66	155.64
PBILDT	40.20	37.01	22.14
PAT	20.94	13.29	10.93
Overall gearing (times)	0.39	0.52	0.54
Interest coverage (times)	6.64	6.13	5.66

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	84.00	CARE A-; Stable
Fund-based - ST-Bill Discounting/ Bills Purchasing		-	-	-	25.00	CARE A2+
Non-fund-based - ST-Bank Guarantee		-	-	-	170.00	CARE A2+

Annexure-2: Rating history of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	84.00	CARE A-; Stable	-	1)CARE A-; Stable	1)CARE A-; Stable	1)CARE A-; Stable

						(25-Mar-22)	(09-Feb-21)	(10-Feb-20)
2	Non-fund-based - ST-Bank Guarantee	ST	170.00	CARE A2+	-	1)CARE A2+ (25-Mar-22)	1)CARE A2+ (09-Feb-21)	1)CARE A2+ (10-Feb-20)
3	Fund-based - ST-Bill Discounting/ Bills Purchasing	ST	25.00	CARE A2+	-	1)CARE A2+ (25-Mar-22)	-	-

*Long term/Short term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities – Not applicable

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - ST-Bill Discounting/ Bills Purchasing	Simple
3	Non-fund-based - ST-Bank Guarantee	Simple

Note on complexity levels of the rated instruments: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please [click here](#)

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