

## Chavda Infra Limited

January 12, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	60.50	CARE BBB-; Stable	Assigned
Long Term / Short Term Bank Facilities	12.50	CARE BBB-; Stable / CARE A3	Assigned
Short Term Bank Facilities	7.00	CARE A3	Assigned

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

The ratings assigned to the bank facilities of Chavda Infra Limited (CIL) derive comfort from its experienced promoters, its established track record of operations in the civil construction industry along with healthy revenue visibility backed by strong orderbook, growing scale of operations with moderate profitability and debt coverage indicators, and adequate liquidity.

The ratings, however, remain constrained on account of CIL's moderate capital structure, sectoral and geographical concentration of its orderbook and moderate counterparty risk. The ratings also factor high working capital intensity of its operations and its presence in a highly fragmented and competitive construction industry.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors

- Timely execution of the orders leading to significant growth in the scale of operations while maintaining its profitability
- Improvement in its overall gearing to 0.80x on a sustained basis
- Improvement in its liquidity cushion in terms of unutilized credit lines and gross current asset days below 225 days on a sustained basis

#### Negative factors

- Delay in execution of its contracts leading to significant dip in its scale of operations along with deterioration in its PBILDT margin below 12% on a sustained basis
- Deterioration in its GCA days above 285 days on a sustained basis

### Analytical approach: Standalone

#### Outlook: Stable

Stable outlook reflects CARE Ratings Limited's (CARE Ratings) expectations that CIL will continue to benefit from extensive experience of its promoters in civil construction industry and its healthy orderbook.

### Detailed description of the key rating drivers:

#### Key strengths

##### Growing scale of operations with healthy revenue visibility in the medium term

CIL's TOI grew at a compounded annual growth rate (CAGR) of around 21% over past 5 years with TOI of Rs.160.48 crore in FY23 (FY refers to the period April 01 to March 31) as against Rs.75 crore in FY19. The growth momentum is expected to continue in the near term backed by its healthy orderbook of Rs.585.58 crore as on October 31, 2023, translating into revenue visibility of 3.65x of FY23 TOI to be executed within next 18-36 months. Around 93% of the unexecuted orderbook pertains to orders awarded to the company during FY23 and FY24.

During H1FY24 (provisional), CIL has reported TOI of Rs.102.58 crore. Considering execution of the projects is skewed in the second half of the financial year, CARE Ratings expects CIL to achieve TOI of Rs.220-240 crore during FY24.

##### Healthy profitability levels coupled with moderate debt coverage indicators

CIL's PBILDT margin remained healthy in the range of 13-16% during last 4 years ended FY23. During FY23, CIL's PBILDT margin improved by 240 bps on a y-o-y basis to 15.99% (FY22:13.59%) on account of better absorption of fixed overheads due to economies of scale. The profitability of the company also depends on the nature of contracts executed during that fiscal. Furthermore, the presence of price variation clause w.r.t all major raw materials like RCC, cement and steel insulates CIL's profitability against major fluctuations in raw material prices.

During H1FY24 (provisional), CIL reported PBILDT margin of 13.98% (H1FY23: 16.59%), however, the same is expected to improve during H2FY24 with scaling up execution pace.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

Furthermore, in line with increase in scale and improvement in profitability level, the debt coverage indicators marked by PBILDT interest coverage and Total Debt to Gross Cash Accruals (TD/GCA) also improved to 5.36x (FY22: 4.53x) and 3.08x (FY22: 4.74x) respectively during FY23.

### **Experienced Promoters with long standing associated with reputed industrial and real estate players**

The key promoter, Mr. Mahesh Chavda, has almost three decades of experience in the civil construction industry and looks after overall operations. He is ably assisted by his sons, Mr. Johil Chavda and Mr. Jeet Chavda, having a decade of experience in the industry. The promoter group looks after key functions of the company and is supported by an experienced and qualified management team of professionals to manage its daily operations.

CIL has been in the civil construction business for around three decades and has demonstrated a track record of timely completion of civil construction contracts awarded by reputed real estate and industrial development players.

### **Key weaknesses**

#### **Moderate capital structure**

CIL's capital structure has improved significantly over a period of last 5 years ended FY23 marked by overall gearing of 1.80x as at FY23 end as against 3.52x as at FY19 end. Furthermore, with receipt of IPO proceeds in September 2023, CIL's net worth base has increased to Rs.80.31 crore as on September 30, 2023, as compared to Rs.30.40 crore as on March 31, 2023. With no major debt-funded plan for acquisition of equipment and machinery, CIL's overall gearing is expected to improve to unity level as on FY24 end.

#### **Working capital intensive nature of operations**

CIL is engaged in execution of civil construction works for private real estate players, wherein apart from higher inventory levels due to milestone based billing system, credit period of around 75-90 days is also extended to clientele resulting in high working capital intensity. Moreover, with increase in number of projects under execution, overall working capital requirement has also increased marked by Gross Current Asset days and operating cycle at 266 days (FY22: 248 days) and 97 days (FY22: 71 days) respectively during FY23. Notwithstanding above, CIL's first real estate venture as a developer through a redevelopment project has accentuated CIL's working capital requirements. Efficient management of its working capital requirements going forward and availability of cushion in terms of unutilized credit lines remains crucial from the credit perspective and hence a key rating monitorable.

#### **Geographical and segmental concentration of orderbook**

CIL's entire orderbook pertains to development of residential and commercial building for private real estate players in the vicinity of Ahmedabad and Gandhinagar, resulting in high geographical and segmental concentration of its operations. Any downturn in these micro markets would adversely impact its cash flows. However, CIL is favourably placed for execution of projects in Ahmedabad wherein it has established in-house managerial resources and local knowledge generally required for the smooth execution of the projects.

#### **Presence in fragmented tender driven construction industry**

CIL is a small-size player operating in an intensely competitive and fragmented construction industry, wherein the firm is dependent on private real estate players for orders. The competitive intensity is on account of the presence of large number of contractors resulting in aggressive bidding which restricts the margins of the players. Furthermore, the operations of the company is directly correlated to the growth in the real estate sector, exposing the growth potential of the company to vulnerability in real estate sector.

#### **Liquidity: Adequate**

Liquidity of the company remains adequate after receipt of IPO proceeds in September 2023 to shore up working capital requirements. Average utilisation of fund based limits remained high at 94% for the trailing 12 months ended September, 2023. However, post receipt of IPO proceeds, the utilisation level moderated to around 55% during October and November 2023. Furthermore, the company has applied for enhancement in fund based limits by Rs.35 crore, sanction of which shall remain crucial from liquidity perspective.

As on October 31, 2023, CIL had free cash and bank balance of Rs.11.35 crore, of which Rs.5.25 crore is lying in the monitoring account, to be utilized for working capital purpose. Cash flow from operations (CFO) remained positive at Rs.8.42 crore during FY23. (FY22: negative CFO). Further, CIL is envisaged to generate GCA in the range of Rs.25-38 crore during FY23-FY26 against repayment obligation ranging around Rs.9 - Rs.17 crore.

## 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

Chavda Infra Limited (CIL; CIN: U45204GJ2012PLC072245) was initially formed in 2012 as a private limited company by Mr. Mahesh Chavda. Subsequently in 2023, the constitution was changed to Public Limited Company and during September 2023 the company got listed on National Stock Exchange (NSE) on SME platform. CIL is a civil construction company offering construction services across residential, commercial and institutional projects for private real estate players in Gujarat, especially in Ahmedabad and Rajkot.

CIL is ISO 9001:2015 certified for quality management system by BCQ Assessment Private Limited. The quality certification is towards construction of commercial, residential, institutional buildings.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	October 31, 2023 (Prov.)
Total operating income	108.91	160.48	102.58
PBILDT	14.80	25.66	14.34
PAT	5.35	12.17	6.64
Overall gearing (times)	2.67	1.80	0.70
Interest coverage (times)	4.53	5.36	5.70

A: Audited; Prov.: Provisional; Note: 'the above results are latest financial results available'

**Status of non-cooperation with previous CRA:** None

**Any other information:** Not Applicable

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

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

**Complexity level of various instruments rated:** Annexure-4

**Lender details:** Annexure-5

### Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	43.78	CARE BBB-; Stable
Fund-based - LT-Term Loan		-	-	August, 2037	15.82	CARE BBB-; Stable
Fund-based - LT-Working Capital Limits		-	-	-	0.90	CARE BBB-; Stable
Fund-based - LT/ ST-Cash Credit		-	-	-	12.50	CARE BBB-; Stable / CARE A3
Non-fund-based - ST-Letter of credit		-	-	-	7.00	CARE A3

**Annexure-2: Rating history for the 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 2023-2024	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
1	Fund-based - LT-Cash Credit	LT	43.78	CARE BBB-; Stable				
2	Fund-based - LT/ST-Cash Credit	LT/ST*	12.50	CARE BBB-; Stable / CARE A3				
3	Non-fund-based - ST-Letter of credit	ST	7.00	CARE A3				
4	Fund-based - LT-Term Loan	LT	15.82	CARE BBB-; Stable				
5	Fund-based - LT-Working Capital Limits	LT	0.90	CARE BBB-; Stable				

\*Long term/Short term.

**Annexure-3: Detailed explanation of covenants of the rated instruments/facilities:** Not Applicable

**Annexure-4: Complexity level of the various instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Fund-based - LT-Working Capital Limits	Simple
4	Fund-based - LT/ ST-Cash Credit	Simple
5	Non-fund-based - ST-Letter of credit	Simple

**Annexure-5: Lender details**

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

**Note on the complexity levels of the rated instruments:** CARE Ratings 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.

## Contact us

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### About us:

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### Disclaimer:

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