

C5 Engineering Private Limited (Revised)

September 05, 2024

| Facilities/Instruments | Amount (₹ crore) | Rating ¹ | Rating Action |
|--|------------------|---|---|
| Long Term Bank Facilities | 75.00 | CARE BB-; Stable; ISSUER NOT COOPERATING* | Revised from CARE BB; Stable and moved to ISSUER NOT COOPERATING category |
| Long Term / Short Term Bank Facilities | 45.00 | CARE BB-; Stable / CARE A4; ISSUER NOT COOPERATING* | Revised from CARE BB; Stable / CARE A4 and moved to ISSUER NOT COOPERATING category |

Details of instruments/facilities in Annexure-1.

*Issuer did not cooperate; based on best available information.

Rationale and key rating drivers

CARE has been seeking information from C5 Engineering Private Limited (C5) to monitor the ratings vide e-mail communications dated May 21,2024, June 03,2024, June 05,2024, June 11, 2024, June 14,2024, July 18, 2024, July 25, 2024 and August 27, 2024 among others and numerous phone calls. However, despite our repeated requests, the company has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the best available information which however, in CARE's opinion is not sufficient to arrive at a fair rating. The rating on C5 Engineering Private Limited (C5) bank facilities will now be denoted as CARE BB-; Stable; CARE A4 ISSUER NOT COOPERATING*

Users of this rating (including investors, lenders, and the public at large) are hence requested to exercise caution while using the above rating(s).

The ratings have been revised and migrated to INC category due to non-availability of requisite information due to non-cooperation by C5 Engineering Private Limited (C5) with CARE'S efforts to undertake a review of the rating outstanding. CARE Ratings views information availability risk as a key factor in its assessment of credit rating.

Analytical approach: Standalone

Outlook: Stable

At the time of last rating on August 24, 2023, the following were the rating weaknesses and strengths.

Detailed description of key rating drivers:
Key weaknesses
Geographic and segmental concentration risk

Majority of the outstanding orders are geographically concentrated towards Telangana (~80%) and Maharashtra (~20%). Hence, any decrease in infrastructure spending, slowdown in growth could adversely affect the company. Furthermore, the outstanding orders are concentrated towards OB removal work (41.87%) followed by irrigation (33.93%) and roads & bridges (24.19%) segment.

Reliance on sub-contracting for orders

C5 was incorporated in July 2021. Hence, about 88% of the total orders are received through back-to-back sub-contracting from Kaveri Engineering Projects Private Limited, KNR Constructions Limited, C5 Infra Private Limited and Laurus Infra Projects Private Limited. The balance orders have been awarded directly to the company, which was bagged through JV with SUSHEE Hitech Projects Private Limited (SUSHEE), where in the company had borrowed prequalification of SUSHEE for bidding for the work, though the awarded works are executed by C5.

Leveraged capital structure and debt coverage metrics

Debt profile of C5 consists of Term loan, cash credit and unsecured loans from promoters. Leveraged capital structure is characterised by overall gearing of 3.56x as on June 30,2023 primarily on account of increase in term loan to cater new projects and increase in utilisation of cash credit on account of increase in scale of operation. Going forward, capital structure is expected to be moderated due to accretion of profit and equity infusion to the extent of Rs. 20 crore. The debt coverage indicators remain

¹Complete definition of ratings assigned are available at www.careedge.in and other CARE Ratings Limited's publications.

leveraged with Total Debt to GCA stands at 4.02x in FY23 (P.Y. 3.43x) and satisfactory PBILDT interest coverage ratio stood at 4.18x in FY23 (P.Y. 13.88x).

Fragmented nature of construction sector with tender-based nature of operations and execution challenges:

The infrastructure sector in India is highly fragmented and competitive with many small and mid-sized players. This coupled with tendering process in order procurement results in intense competition within the industry, fluctuating revenues, and restrictions in profitability. Additionally, continued increase in execution challenges including delays in land acquisition, regulatory clearances, aggressive bidding, interest rate risk and delays in project due to environmental clearance are other external factors that affect the credit profile of industry players. All these are tender-based and the revenues are dependent on the ability of the company to bid successfully for these tenders. Profitability margins come under pressure because of competitive nature of the industry. However, the promoter's long industry experience of nearly five decades mitigates this risk to some extent.

Key strengths

Experienced Promoters:

C5 is promoted by Sushanth Chennadi (Son) and Veena Chennadi (Wife) under the guidance of Sudhakar Rao Chennadi (Husband) and his family. C5 is closely held by the family of Sri Sudhakar Rao Chennadi, ex-MLC, Andhra Pradesh. His family has rich experience in handling infrastructure projects in the past 4 decades under the name of Vensa Infrastructure Limited (formerly known as CMR Projects Limited). CMR Projects Limited was established in 1970 which received its current nomenclature in May 2015 i.e., Vensa Infrastructure Limited. It is the class 1 contractor and engaged in irrigation, roads and buildings works.

Moderate scale of operation with satisfactory profitability

C5 was incorporated in July 2021. Hence, FY23 is the full year of operation wherein it has achieved total operating income (TOI) of Rs. 231.52 crore as against Rs. 136.29 crore in FY22 (A) for 8-9 months of operation. In FY23 (UA), operating profit was Rs. 33.85 crore with operating margin of 14.62% and in FY22 (A), the company booked operating profit of Rs. 12.63 crore with operating margin of 9.26%. Profit After Tax (PAT) for FY22 (A) and FY23 (UA) stands at Rs. 7.95 crore and Rs. 15.64 crore respectively with PAT margin of around 6-7%. C5 is venturing into over burden (OB) removal work and has bagged orders for the same. Hence, for FY24, the operating income is expected to reach around Rs. 450 crore with an expected operating margin of 12% and PAT margin of around 6%.

Satisfactory orderbook albeit client concentration:

As on June 15, 2023, C5 has an outstanding order book of Rs. 1,607.29 crores which translates to 6.96x gross billing of FY23 (UA), which further indicates medium to long term revenue visibility. Outstanding orders are majorly awarded from Kaveri Engineering Projects Private Limited of Rs. 820.32 crore (51.04%), C5SUSHEE Joint Venture of Rs. 352.72 crore (21.95%), KNR Construction Limited of Rs. 244.92 crore (15.24%) and balance orders worth of 147.56 crore (9.18%) are from multiple client of which major orders are from related company i.e., C5 Infra Private Limited. C5 to SUSHEE JV is in the ratio of 3:1. However, entire work will be carried out by C5 and BG is given by C5. C5 will pay Rs. 4.25 crore to SUSHEE as a part of this JV. This apart, all the outstanding orders are funded through state government or central government undertakings which mitigates counterparty credit risk.

Escalation clause for input prices in contracts

Steel, cement, concrete, diesel, bitumen, etc, are the major inputs for any construction entity, the prices of which are volatile. However, C5 has a price escalation clause in all civil construction projects, wherein, the burden of price increase is marked-up in the billing to the client.

Comfortable operating cycle

Company had comfortable operating cycle in FY23 with average receivables days of 26 days (42 days including retention money), inventory days of 69 days (63 days of WIP) which was offset by better credit terms with its vendors of 106 days which resulted in negative operating cycle.

Stable demand outlook due to the thrust of the government on infrastructure development:

Growth in infrastructure is critical for the development of the economy and hence, the construction sector assumes a significant role. The sector was marred by varied challenges during the last few years on account of economic slowdown, regulatory changes and policy paralysis which had adversely impacted the financial and liquidity profile of players in the industry coupled with the Covid-19 pandemic. The Government of India has been undertaking several steps for boosting infrastructure development and reviving the investment cycle in the segment, which was facing a slowdown for the past couple of years. The same is expected to drive growth opportunities, subject to the availability of adequate working capital. Thrust of the government on infrastructure development is expected to augur well for construction players with low leverage and demonstrated execution capabilities, in the medium term. The government initiatives in road construction such as a build-up of new rural roads and gradation of existing rural roads, broadening of national highways and providing connectivity to tribal areas, has offered various opportunities for construction companies. The India Infrastructure Sector Market is anticipated to register a CAGR of more than 8.2% over the next five years. Further, as per the budget for 2023-24, there has been an increase in capital expenditure on infrastructure investment by Rs.33 crore i.e., Rs.10 lakh crore for 2023-24, which is 3.3% of GDP.

Liquidity: Adequate

Adequate liquidity is marked by generation of gross cash accruals of Rs. 20.49 crore as against repayment of Rs. 16.05 crore in FY24. However, working capital utilisation is higher at about 100% of the drawing power for month ended March 2023 as the company is not taken any mobilisation advances for execution of projects. This, apart C5 has cash and bank balances to the tune of Rs. 3.81 crore.

Assumptions/Covenants: Not Applicable**Environment, social, and governance (ESG) risks:** Not Applicable**Applicable criteria**
[Definition of Default](#)
[Policy in respect of non-cooperation by issuers](#)
[Rating Outlook and Rating Watch](#)
[Financial Ratios – Non financial Sector](#)
[Construction](#)
[Liquidity Analysis of Non-financial sector entities](#)
[Infrastructure Sector Ratings](#)
[Short Term Instruments](#)
About the company and industry**Industry classification**

| Macroeconomic indicator | Sector | Industry | Basic industry |
|-------------------------|--------------|--------------|--------------------|
| Industrials | Construction | Construction | Civil Construction |

C5 Engineering Private Limited (C5), incorporated on July 02,2021 with registered office at Hyderabad, Telangana. C5 is promoted by Sushant Chennadi and Veena Chennadi. C5 undertakes civil, infrastructure and irrigation projects. The company is eligible for special class contractor registration, and it had applied for the same.

| Brief Financials (₹ crore) | March 31, 2022 (A) | March 31, 2023 (A) |
|----------------------------|--------------------|--------------------|
| Total operating income | 136.29 | 231.52 |
| PBILDT | 12.63 | 33.85 |
| PAT | 7.95 | 15.64 |
| Overall gearing (times) | 3.86 | 2.88 |
| Interest coverage (times) | 13.88 | 4.18 |

A: Audited UA: Unaudited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not Applicable**Any other information:** Not Applicable**Rating history for last three years:** Annexure-2**Detailed explanation of covenants of rated instrument / facility:** Annexure-3**Complexity level of instruments rated:** 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 and Rating Outlook |
|---------------------------------------|------|-------------------------------|-----------------|----------------------------|-----------------------------|---|
| Fund-based - LT-Cash Credit | | - | - | - | 30.00 | CARE BB-; Stable; ISSUER NOT COOPERATING* |
| Fund-based - LT-Term Loan | | - | - | 31-03-2026 | 45.00 | CARE BB-; Stable; ISSUER NOT COOPERATING* |
| Non-fund-based - LT/ST-Bank Guarantee | | - | - | - | 45.00 | CARE BB-; Stable / CARE A4; ISSUER NOT COOPERATING* |

*Issuer did not cooperate; based on best available information.

Annexure-2: Rating history for 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 2024-2025 | 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 |
| 1 | Fund-based - LT-Cash Credit | LT | 30.00 | CARE BB-; Stable; ISSUER NOT COOPERATING* | - | 1)CARE BB; Stable (24-Aug-23) | - | - |
| 2 | Non-fund-based - LT/ ST-Bank Guarantee | LT/ST | 45.00 | CARE BB-; Stable / CARE A4; ISSUER NOT COOPERATING* | - | 1)CARE BB; Stable / CARE A4 (24-Aug-23) | - | - |
| 3 | Fund-based - LT-Term Loan | LT | 45.00 | CARE BB-; Stable; ISSUER NOT COOPERATING* | - | 1)CARE BB; Stable (24-Aug-23) | - | - |

*Issuer did not cooperate; based on best available information.

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: NA**Annexure-4: Complexity level of 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 | Non-fund-based - LT/ ST-Bank Guarantee | Simple |

Annexure-5: Lender details

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

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

Contact us

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About us:

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Disclaimer:

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