CCL International Limited

January 22, 2020

Ratings

Facilities	**Amount (Rs. crore)**	**Rating**[1]	**Remarks**
Long-term Bank Facilities	3.50	**CARE BB; Stable (Double B; Outlook: Stable)**	Reaffirmed
Long-term / Short-term Bank Facilities	10.00	**CARE BB; Stable/ CARE A4 (Double B; Outlook: Stable/ A Four)**	Reaffirmed
Total	**13.50 (Rs. Thirteen crore and fifty lakhs only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings to the bank facilities of CCL International Limited (CCL) continues to remain constrained by small scale of operations and elongated operating cycle. The ratings further continue to remain constrained by business risk associated with tender-based-orders and presence in a highly competitive nature of industry.

The ratings, however continue to derive comfort from experienced management and technically qualified team, moderate profitability margins, healthy order book position however entailing concentration, comfortable capital structure & moderate debt coverage indicators.

Rating Sensitivities

Positive Factors

- Increase in scale of operations as marked by total operating income of above Rs. 100.00 crore on sustained basis.
- Improvement in operating cycle below 90 days on sustained basis.

Negative Factors

- Deterioration in capital structure as marked by overall gearing ratio of above 1.50x.
- Deterioration in the coverage indictors as marked by interest coverage ratio below 2.00x and total debt to GCA above 8.00x on sustained basis.

Detailed description of the key rating drivers

Key Rating Weakness

Small scale of operations

The scale of operations of the company continues to remain small as marked by total operating income and gross cash accruals of Rs. 37.98 crore and Rs. 4.51 crore respectively during FY19 (FY refers to the period April 1 to March 31). Furthermore, the scale has been fluctuating for the past three financial years i.e. FY17-FY19 owing to tender driven nature of construction business and closure of real estate and trading business segments. The small scale limits the company's financial flexibility in times of stress and deprives it from scale benefits.

The company has achieved total operating income of ~Rs. 10.85 crore till 6MFY20 (refers to the period April 01 to September 30, based on provisional results).

Elongated operating cycle

The operations of the company continue to remain elongated as it is evident from operating cycle of 131 days for FY19 as against 140 days. The elongated operating cycle emanates from higher work in progress inventory at project site of 100 days, in FY19. The company maintains minimum inventory in the form of raw materials and work in progress at different sites for smooth execution of contracts which leads to inventory days of 100 in FY19.The company raises bills on quarterly basis i.e. on the completion of certain percentage of work and thereon which gets acknowledge by client after inspection of work done by CCL. Further, the collection period stood on the higher side as all of the company's customers are public sector undertaking and the realization generally takes 2-3 months due to procedural delays relating to clearance of bills. The company normally receives payable period of around 2-3 months from its suppliers resulting in average creditor period of 87 days for FY19. The average working capital limits of the company remained 72.92% utilized for the past 12 months period ended December 31, 2019.

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

Geographical concentration in revenue profile
The order book of the company continues to remain concentrated to a single geography i.e. Eastern India, thus exposing it to geographical concentration in its revenue profile. Approximately 90% of the unexecuted order book pertains to work in the Meghalaya region. CARE believes that CCL's business risk profile is exposed to unfavourable changes in the government policy in that region and the company is also exposed to regional disturbances.

Business risk associated with tender -based-orders
The company undertakes government projects from government entities like PWD (Public Works Department) in Assam, Mizoram and Meghalaya which are awarded through the tender-based system. The company is exposed to the risk associated with the tender-based business, which is characterized by intense competition. The growth of the business depends on its ability to successfully bid for the tenders and emerge as the lowest bidder. Hence, going forward, due to increasing level of competition and aggressive bidding, the profits margins are likely to be under pressure in the medium term.

Highly competitive industry
Indian construction industry is characterized as fragmented and competitive in nature as there are a large number of players at the regional level. CCL faces direct competition from various organized and unorganized players in the market. There are number of small and regional players and they are catering to the same market which limits the bargaining power of the company resulting in exerting pressure on its margins. CCL receives all its majority of work orders from government/ public sector undertakings. The risk arises from the fact that any changes in geo-political environment and policy matters would affect all the projects at large. Furthermore, any changes in the government policy or government spending on projects are likely to affect the future revenues of the company.

<u>Key Rating Strength</u>

Experienced management and technically qualified team
The operations of CCL are currently managed by Mrs. Rama Gupta and Mr. Akash Gupta. Mrs. Rama Gupta, managing director of CCL, is a post graduate by qualification and has experience of more than a decade in the finance and civil construction industry through her association with various public and private entities (Tanvi Fincap Private Limited, AAR Securities Limited, AAR Infracity Limited, and AAR Infrastructure Limited). Mr. Akash Gupta, director of CCL, is a graduate by qualification and has an experience of around a decade through his association with entity and other associate concerns. Both of them collectively look after the overall operations of the company.
Further, they are supported by other independent directors viz. Mr. Arvind Sharma, Ms. Sonam Sharma and Mr. Sandeep Garg, who have considerable experience in the construction industry through their association with this entity and other associate concerns. The company has well qualified and experienced engineers, along with supervisory staff.

Healthy order book position, however entailing concentration
In the past the company had completed the projects of various clients. In light of past track record and satisfactory work, it has managed to get larger sized orders from the clients. The company has orders worth Rs. 237.43 crore from Public Works Department (PWD), Meghalaya, Mizoram and Assam. The unexecuted order book of the company as on September 30, 2019 stood at Rs. 188.73 crore, which is equivalent to 17.39x of the total operating income generated from the construction business in FY19, thereby giving medium term revenue visibility. The average tenor of the contracts to be executed varies up to 24-36 months. However, the entire order book at present is concentrated towards contracts from Public Works Department (PWD), Meghalaya. Hence, any unfavorable changes in their contracts awarding policies would have a direct bearing on the company's revenue growth and profitability. Also, effective and timely execution of the orders has a direct bearing on the margins.

Moderate profitability margins
The profitability margins of CCL are directly associated with technical aspect of the contract. Further, the profitability varies with the project due to tender driven nature of the business owing to varying margins in the different projects undertaken by the company. The profitability margins of the company continue to remain moderate as marked by PBILDT margin and PAT margin of 14.98% and 5.29% respectively for FY19 as against 14.41% and 0.25% respectively for FY18. Further, in 6MFY20 (refers to the period from April 01 to September 30, 2019) the PBILDT margin stood at 16.31% and AT margin of 1.01%.

Comfortable capital structure and moderate debt coverage indicators
The capital structure of the company continues to remain comfortable as on the past three balance sheet dates ending March 31'17-'19, on account of higher net worth base along with limited debt levels availed. The debt to equity stood at 0.38x and overall gearing ratio stood at 0.48x as on March 31, 2019 as against debt equity ratio of 0.31x and overall gearing ratio of 0.31x as on March 31, 2018. The slight deterioration in the capital structure was on account of increased dependence on external borrowings to meet its capex and working capital requirements.

Moreover, the coverage indicators of the company continues to remain moderate owing to limited debt levels as marked by interest coverage ratio of 3.71x in FY19 and total debt to GCA at 4.64x in FY19.

Liquidity: Adequate- The liquidity position of the company remained adequate characterized by sufficient cushion in accruals vis-à-vis repayment obligations. The company generates GCA of Rs. 4.51 crore and cash & bank balances of Rs.0.55 crore as against repayment of Rs.1.60 crore in FY19. Its working capital limits are utilized around 72.92% for the past 12 month's period ending December, 2019, supported by above unity current ratio and quick ratio.

Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology - Infrastructure Sector Ratings
Financial ratios – Non-Financial Sector

About the Company
New Delhi based, CCL International Limited (CCL) (erstwhile known as Chirawa Cements Limited) was incorporated in June, 1991 as a public limited company. The company is currently being managed by Mrs. Rama Gupta and Mr. Akash Gupta. The company is a Class 'A' Government contractor, engaged in civil construction works such as construction of roads, bridges, highways etc

(Rs. In crores)

Brief Financials (Rs. crore)	FY18 (A)	FY19(A)
Total operating income	33.98	37.98
PBILDT	4.90	5.69
PAT	0.08	2.01
Overall gearing (times)	0.31	0.48
Interest coverage (times)	3.16	3.71

A-Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable
Rating History (Last three years): Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	10.00	CARE BB; Stable / CARE A4
Fund-based - LT-Cash Credit	-	-	-	3.50	CARE BB; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	10.00	CARE BB; Stable / CARE A4	-	1)CARE BB; Stable / CARE A4 (19-Nov-18)	-	-
2.	Fund-based - LT-Cash Credit	LT	3.50	CARE BB; Stable	-	1)CARE BB; Stable (19-Nov-18)	-	-

Note on complexity levels of the rated instrument*: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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