CCL International Limited

November 19, 2018

Ratings

Bank Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	3.50	**CARE BB; Stable (Double B; Outlook: Stable)**	**Assigned**
Long-term/ Short-term Bank Facilities	10.00	**CARE BB; Stable/ CARE A4 (Double B; Outlook: Stable/ A Four)**	**Assigned**
Total facilities	**13.50 (Rs. Thirteen Crore Fifty Lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rational and key rating drivers

The ratings assigned to the bank facilities of CCL International Limited (CCL) are primarily constrained by small & declining scale of operations, fluctuating profitability margins and elongated operating cycle. The ratings are further constrained by business risk associated with tender-based-orders and presence in a highly competitive nature of industry. The ratings, however drive comfort from experienced management and technically qualified team, healthy order book position however entailing concentration, comfortable capital structure & moderate debt coverage indicators.

Going forward; ability of the company to profitability increase its scale of operations while maintaining its capital structure shall be the key rating sensitivity. Also, ability of the company to successfully execute projects within envisaged time and cost given highly competitive nature of industry shall be another key rating sensitivity.

Key description and key rating drivers

Key rating weakness

Small and declining scale of operations: The scale of operations of the company stood small marked by total operating income and gross cash accruals of Rs.33.98 crore and Rs.2.02 crore respectively during FY18 (FY refers to the period April 1 to March 31). Furthermore, the scale has been declining for the past three financial years i.e. FY16-FY18 registering negative CAGR of ~34.42% owing to discontinuation of trading business. 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.15.00 crore in 6MFY19 (refers to the period April 01 to September 30, based on provisional results).

Fluctuating profitability margins: The profitability margins of the company have been fluctuating over the past three years i.e. FY16-FY17. The company's profitability margins have been historically on the lower side owing to the trading nature of business and intense market competition, given the highly fragmented nature of the industry coupled with tender driven nature of operations wherein profitability largely depends upon nature of contract executed. This apart, higher depreciation and interest expense have also restricted the net profitability of the company. PAT margins declined in FY18 and stood at 0.25% due to higher interest expense and capital loss on sale of property.

Elongated operating cycle: The operations of the company stood at operating cycle of 140 days for FY18. The elongated operating cycle emanates from higher work in progress inventory at project site of 116 days in FY18. The firm maintains minimum inventory in the form of raw materials and work in progress at different sites for smooth execution of contracts resultant into an average inventory period of 152 days for FY18. The firm raises bills on quarterly basis i.e. on the completion of certain percentage of work. 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 112 days for FY18. The average working capital limits of the company remained 50% utilized for last 12 months ended September 30, 2018.

Business risk associated with tender -based-orders: The company undertakes projects for 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.

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

Highly competitive industry: Indian construction industry is characterized as competitive nature as there are a large number of players at the regional level. There are number of small and regional players and catering to the same market which has limited the bargaining power of the firm and has exerted pressure on its margins.

Key rating strengths

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, 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 other private entities. 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. Vinod Kumar.

Healthy order book position, however entailing concentration*:* In light of past tract record and satisfactory work, it has managed to get repetitive orders from the clients. The unexecuted order book of the company stood equivalent to 8.51x of the total operating income generated from the construction business in FY18, thereby giving medium term revenue visibility. 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.

Comfortable capital structure & moderate debt coverage indicators: The capital structure of the company stood comfortable marked by overall of below 0.35x as on the past three balance sheet dates ending March 31, '16-'18 mainly on account of satisfactory net worth base against limited debt levels availed. Moreover, the coverage indicators of the company stood moderate marked by interest coverage ratio of 3.16x in FY18 and total debt to GCA at 6.43x in FY18.

Analytical approach- Standalone

Applicable criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
CARE's Rating Methodology - Wholesale Trading
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.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	65.84	33.98
PBILDT	0.68	4.90
PAT	3.10	0.08
Overall gearing (times)	0.33	0.31
Interest coverage (times)	0.47	3.16

A: Audited

Status of non-cooperation with previous CRA – Not Applicable

Any other information – Not Applicable

Rating History for last three years: Please refer Annexure-2

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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About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an *External Credit Assessment Institution (ECAI)* by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	10.00	CARE BB; Stable / CARE A4	-	-	-	-
2.	Fund-based - LT-Cash Credit	LT	3.50	CARE BB; Stable	-	-	-	-

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CIN - L67190MH1993PLC071691