



Press Release

Challa Infra Projects Private Limited

July 24, 2024

Ratings

Instrument / Facility	Amount (Rs. crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	15.13	IVR BB-/Stable (IVR Double B Minus with Stable Outlook)	IVR BB/Stable (IVR Double B with Stable Outlook)	Downgraded	Simple
Long Term Bank Facilities	5.00	IVR BB-/Stable (IVR Double B Minus with Stable Outlook)	-	Assigned	Simple
Short Term Bank Facilities	14.50	IVR A4 (IVR A Four)	IVR A4 (IVR A Four)	Reaffirmed	Simple
Short Term Bank Facilities	15.50	IVR A4 (IVR A Four)	-	Assigned	Simple
Total	50.13	(Rupees Fifty Crore and Thirteen Lakh only)			

Details of Facilities/Instruments are in Annexure 1. Facility wise lender details are at Annexure 2. Detailed explanation of covenants is at Annexure 3.

Detailed Rationale

Infomerics Ratings has downgraded its rating assigned to the bank facilities for the long-term facilities to IVR BB- with a stable outlook of Challa Infra Projects Private Limited and has reaffirmed the short-term ratings of IVR A4. Infomerics Ratings has also assigned the ratings of IVR BB- with Stable outlook for the long-term enhanced facilities and IVR A4 for the short-term enhanced facilities of Challa Infra Projects Private Limited.

The rating downgrade takes into consideration the reduction in scale of operations and losses being generated in FY2024 (Prov.) there by resulting in further weakening of debt protection metrics. The rating also remains constrained by tender driven nature of business coupled with highly fragmented and a competitive nature of industry. However, the rating continues to take into consideration the established track record of promoters and strong order book reflecting medium term revenue visibility.

The 'Stable' outlook indicates a low likelihood of rating change over the medium term. Infomerics ratings believes that Challa Infra Projects Private Limited will continue to benefit on account of stable outlook for infrastructure industry.



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Infomerics Ratings has principally relied on the standalone provisional financial results of Challa Infra Projects Private Limited up to 31 March 2024 (refers to period April 1st, 2023, to March 31st, 2024) and projected financials for FY2025 (refers to period April 1st, 2024, to March 31st, 2025) - FY2027 (refers to period April 1st, 2026, to March 31st, 2027), and publicly available information/ clarifications provided by the company's management.

Key Rating Sensitivities:

Upward Factors

- Substantial and sustained growth in operating income with improvement in profitability and cash accruals on a sustained basis.
- Sustenance of the capital structure with improvement in debt protection metrics, specific credit metrics will be interest coverage above 2 times on a sustained basis

Downward Factors

- Further moderation in scale of operations or profitability impacting the liquidity profile.
- Weakening of the capital structure with further deterioration of debt protection metrics.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced track record of promoters**

The promoter Mr. Rakesh Reddy, Mr. Manas Reddy and Mrs. Challa Jyothi have experience of more than one decade in the civil construction industry. The experience of the management has helped the company to successfully bid for tenders floated by state Government mainly in Telangana and Andhra Pradesh.

- **Strong order book reflecting medium term revenue visibility**

The company has a strong order book position as the total unexecuted order book as on April 2024 stood at Rs. 414.00 Cr. which is 5.03 times of the turnover of FY24, reflecting medium term revenue visibility.



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Key Rating Weaknesses

- **Reduced scale of operations and losses at net level**

TOI of Challa Infra Projects Private Limited moderated from Rs. 110.45 Crore in FY23 to Rs. 82.27 Crore in FY24(P). The company witnessed a decline in its operating income due to the lower execution of orders. Gross Cash Accrual of the company moderated from Rs. 6.48 Crore in FY23 to a negative of Rs. 3.05 Crore in FY24(P).

The profitability margins of the firm, like EBITDA margin moderated from 8.57% in FY23 to 1.50% in FY24(P) due to lower margins earned on executed projects, further, the PAT margin also moderated from 3.48% in FY23 to a negative of 7.43% in FY24(P).

- **Moderate capital structure and debt protection metrics**

The Overall Gearing ratio moderated from 0.45 times as on March 31, 2023, to 0.88 times as on March 31, 2024(P), the same moderated because of the higher utilisation of working capital limits and unsecured loans. TOL/TNW also moderated from 2.00 times as on March 31, 2023 to 2.81 times as on March 31, 2024(P).

The debt protection indicators deteriorated considerably marked by Interest Coverage Ratio of 0.39 times in FY24 (P) (FY 23: 4.08 times). DSCR was 1.38 times in FY 23 and falling to 0.01 times in FY24(P) on account of reduced profitability.

Total Debt to GCA moderated and stood at negative of 9.18 years in FY24(P) as against 2.52 years in FY23 due to the increase in term loans and bank borrowings, further the Tangible Net Worth also moderated from Rs. 36.55 Cr. As on 31st March 2023 to Rs. 31.80 Cr. as on 31st March 2024(P).

- **Tender driven nature of business in highly fragmented and competitive sector**

Execution risks for newly awarded projects in a timely manner will be key to achieving growth in revenues and profits. Business certainty is dependent on the entity's ability to successfully bid for the tenders as the entire business is tender based. The domestic infrastructure sector is highly fragmented marked by the presence of many players with varied statures & capabilities.



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Analytical Approach: Standalone

Applicable Criteria:

[Rating Methodology for Infrastructure Companies.](#)

[Criteria on assigning rating outlook](#)

[Policy on Default Recognition and Post-Default Curing Period](#)

[Complexity Level of Rated Instruments/Facilities](#)

[Financial Ratios & Interpretation \(Non- Financial Sector\)](#)

Liquidity – Adequate

The company's liquidity is adequate marked by 14.32% average utilisation of fund-based limits during the past 12 months ended May 2024. Further, the company expects sufficient cushion in cash accruals against its debt repayments. The company is expecting GCA in the range of Rs. 2.00- Rs.6.00 crore during FY25-27. The company has a Current Ratio of 1.45x as on March 31, 2024, compared to 1.48x as on March 31, 2023. The Working Capital Cycle of the company stood at 84 in FY24 days which was 83 days in FY23. The unencumbered cash and bank balance stood at Rs. 7.95 crore as on March 31, 2024(Provisional).

About the Company

Established in 2011, Challa Infra Projects Private Limited, is engaged in undertaking civil construction projects primarily related to construction of building, bridges, roads and irrigation works for State Government departments Telangana and Andhra Pradesh. The company is promoted by Ms Manasa Reddy Samreddy (Managing Director), Ms Jyothi Challa (Director) and Mr Rakesh Samreddy (Director).

The promoters have an experience of about a decade in civil construction industry and have also established long term relationship with various government entities and subcontractors.

Financials (Standalone):

(Rs. crore)

For the year ended/ As on*	31-03-2023	31-03-2024
	Audited	Provisional
Total Operating Income	110.45	82.27
EBITDA	9.46	1.23



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PAT	3.87	-6.13
Total Debt	16.33	27.98
Tangible Net Worth	36.55	31.80
EBITDA Margin (%)	8.57	1.50
PAT Margin (%)	3.48	-7.43
Overall Gearing Ratio (x)	0.45	0.88
Interest Coverage (x)	4.08	0.39

* Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: None

Any other information: Not applicable

Rating History for last three years:

Sr. No.	Name of Security/Facilities	Current Ratings (Year 2024-2025)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2023-24	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22
					May 25, 2023	-	Feb 26, 2022
1.	Fund Based Limits	Long Term	20.13	IVR BB-/Stable	IVR BB/Stable	-	IVR BB+/Stable
2.	Non-Fund Based Limits	Short Term	30.00	IVR A4	IVR A4	-	IVR A4+

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt



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instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

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Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

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Annexure 1: Instrument/Facility Details

Name of Facility/ /Security	ISIN	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Facility – Cash Credit	-	-	-	-	15.00	IVR BB-/ Stable
Long Term Facility -Term Loan	-	-	-	October 2027	5.13	IVR BB-/ Stable
Short Term Facility -Bank Guarantee	-	-	-	-	30.00	IVR A4

Annexure 2: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/len-Challa-Infra-july24.pdf>

Annexure 3: Detailed explanation of covenants of the rated Security/facilities: Not Applicable

Annexure 4: List of companies considered for consolidated/Combined analysis: Not Applicable



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Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

