



Press Release

Challa Infra Projects Pvt. Ltd.

May 25th, 2023

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	16.93	IVR BB / Stable Outlook	Revised	Simple
Short Term Bank Facilities	14.50	IVR A4	Revised	Simple
Total	31.43	(Rupees Thirty One Crore and Forty Three Lakh Only)		

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of Challa Infra Projects Private Limited derives comfort from extensive experience and established track record of the promoter, strong order book reflecting medium term revenue visibility and moderate capital structure and debt protection metrics. However, the rating strengths continues to be constrained by fluctuating scale of operations, concentrated order book, inherent risk as on EPC contractor and tender driven nature of business in highly fragmented & competitive construction sector.

Key Rating Sensitivities:

Upward Factors

- Substantial and sustained growth in operating income with improvement in profitability and cash accruals on a sustained basis
- Improvements in the order book position of the company.
- Sustenance of the capital structure with improvement in debt protection metrics

Downward Factors

- Moderation in scale of operations or profitability impacting the liquidity profile
- Moderation in the capital structure with deterioration of debt protection metrics
- Any deterioration in liquidity profile on a sustained basis.

List of Key Rating Drivers with Detailed Description



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Key Rating Strengths

Established 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 extensive 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 strong order book position as on 30th April'23 of Rs. 431.64 crores which to be executed in next 3 to 18 months gives strong revenue visibility in medium term. The total unexecuted order book is 4.94 times of the total operating income of FY22.

Moderate capital structure and debt protection metrics

The capital structure remained moderate as on March 31, 2022. The long-term debt to equity and overall gearing stood at 0.18x and 0.48x respectively as on March 31,2022 as against 0.20x and 0.45x respectively as on March 31,2021. The indebtedness of the company as reflected by TOL/TNW improved from 2.58x as on March 31, 2021, to 2.25x as on March 31, 2022, due to decrease in creditors. Interest coverage ratio and Total debt to GCA remained moderate at 5.16x and 3.06x respectively in FY2022 as against 6.52x and 2.19x respectively in FY21. DSCR stood at 1.81x in FY22.

Key Rating Weaknesses

Concentrated Order Book Position

The Orderbook position is mainly concentrated towards work orders based in Andhra Pradesh and Telangana region only. Going forward, materialization of the already bided contracts and winning of new contracts will be crucial for the entity.



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Tender driven nature of business in highly fragmented & competitive construction 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 entire business is tender based. The domestic infrastructure sector is highly fragmented marked by presence of many players with varied statures & capabilities. Boom in the infrastructure sector, a few years back, resulted in increase in the number of players. While the competition is perceived to be healthy, significant price cut by few players during the bidding process is a matter of serious concern for the users with respect to quality of output.

Inherent risk as an EPC contractor

Economic vulnerability and regulatory risks in developing markets, delay in payments from the Government, project execution risk and fluctuating input costs are the key business risk faced by the entity in the sector.

Fluctuating scale of operation

The total operating income declined by 30.72% to Rs. 87.35 Crores in FY22. With decrease in total operating income, absolute PBT and PAT has also decreased from Rs 5.61 crore and Rs 4.10 crore respectively in FY21 to Rs 3.12 crore and Rs 2.30 crore respectively in FY22 with gross cash accruals declining from Rs 6.42 crore in FY21 to Rs. 5.21 crore in FY22. The PAT margin declined by 62 BPS and stood at 2.62% in FY22 as against 3.24% in FY22 due to high depreciation and interest expenses. EBITDA decreased from Rs. 9.62 Crore in FY21 to Rs. 8.07 Crore in FY22. However, EBITDA margin increased by 160 bps from 7.63% in FY21 to 9.23% in FY22. EBITDA margin increased due to higher margins earned on executed projects. As per provisional results, the company has reported total operating revenue of Rs.110.45 crore in FY23.



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Analytical Approach: Standalone.

Applicable Criteria:

[Rating Methodology for Infrastructure Company](#)

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

[Criteria on assigning rating outlook](#)

Liquidity – Adequate

The liquidity of the company is adequate marked by expectation of sufficient cushion in cash accruals against debt repayments. However, the liquidity profile is restricted due to CIPPL's working capital intensive nature of operations marked by high fund-based limit utilisation at 90.30% during the past 12 months ended Mar'23 and almost 80% utilisation of non fund based limits. The unencumbered cash and bank balance as on 31st Mar'22 is Rs. 0.04 Crore. The Current Ratio of the entity stood at 1.42x as on March 31, 2022 as against 1.33x as on March 31, 2021. CIPPL's operating cycle increased from 53 days in FY21 to 90 days in FY22 due to increase in collection period from 57 days in FY21 to 88 days in FY22 and increase in inventory period from 98 days FY21 to 158 days in FY22 with a decline in scale of operations.

About the Company

Established in 2011, CIPPL, 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. During the initial days of the company, more services were rendered to water supply works and bridge works.

Financials (Standalone):



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(Rs. Crore)

For the year ended*/ As on	31-03-2021	31-03-2022
	Audited	Audited
Total Operating Income	126.06	87.35
EBITDA	9.62	8.07
PAT	4.10	2.30
Total Debt	14.09	15.94
Tangible Net Worth	31.01	33.04
EBITDA Margin (%)	7.63	9.23
PAT Margin (%)	3.24	2.62
Overall Gearing Ratio (x) (including quasi-equity)	0.45	0.48

* 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 Instrument/Facilities	Current Ratings (Year 2022-23)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2021-22 (Feb 26 th , 2022)	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20
1.	Term Loan	Long Term	6.93	IVR BB/ Stable	-	-	-
2.	Cash Credit	Long Term	10.00	IVR BB/ Stable	IVR BB+/ Stable	-	-
3.	LC's / BG's	Short Term	14.50	IVR A4	IVR A4+	-	-

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About Infomerics:



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Infomerics Valuation and Rating Private Limited (Infomerics) was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

For more information visit www.infomerics.com

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/IRR	Maturity Date	Size of Facility (INR Crore)	Rating Assigned/ Outlook
Term Loan	-	-	Mar'29	6.93	IVR BB/ Stable
Cash Credit	-	-	-	10.00	IVR BB/ Stable
LC's / BG's	-	-	-	14.50	IVR A4

Annexure 2: List of companies considered for consolidated analysis: Not Applicable.



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Annexure 3: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/Len-Challalnfra-may23.pdf>

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

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.

