



Press Release

Challa Infra Projects Private Limited

February 26, 2022

Ratings

Instrument Facility /	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	12.00	IVR BB+; Stable Outlook (IVR Double B plus with Stable Outlook)	Assigned	Simple
Short Term Bank Facility	14.50	IVR A4+(IVR A Four Plus)	Assigned	Simple
Total	26.50 (Twenty six Crore and fifty lakhs only)			

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of Challa Infra Projects Private Limited drives comfort from extensive experience of the promoter, consistent scale of operations along with strong order book reflecting medium term revenue visibility and comfortable capital structure with healthy debt protection metrics. However, the rating strengths continues to be constrained by 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 on a sustained basis
- Improvements in the order book position of the firm.
- 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



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List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Established track record of promoters

The promoter Mr. Rakesh Reddy, Mr Manas Reddy and Mrs Challa Jyothi has experience of more than one decades 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 satisfactory medium-term revenue visibility

The company has a strong unexecuted order book of ~Rs.323 crore as on date which is about 2.69 times of its FY21 construction revenue (i.e.Rs.120.06 crore). The orders are expected to be completed within next two-three years, indicating a satisfactory near to medium term revenue visibility.

Consistent Scale of Operations

The Scale of operations has been consistent over the last 3 years. The company has been consistently executing contracts in the range of Rs.119.00-126.00 Crores over the fiscals 2019 to 2021. With increase in total operating income, absolute PAT and PBT has also improved from Rs 5.08 crore, Rs 3.69 crore in FY19 to Rs 5.61 crore, Rs 4.10 crore in FY21, with gross cash accruals improvement from of Rs 6.30 crore in FY19 compared to Rs 6.42 crore in FY21. The PAT margin has also witnessed an improvement from 3.09% in FY19 to 3.24% in FY21. Further, till Dec 2021 the company has achieved a total sale of approx~ Rs. 75.88 crore and PAT of Rs 2.46 crore.

Comfortable capital structure with healthy debt protection metrics

The capital structure of the company remained comfortable as on the past three account closing dates with net worth of Rs 31.01 crore as on March 31, 2021. The overall gearing ratio stood comfortable at 0.45x as on March 31, 2021. The total debt of CIPPL comprises of Rs 4.03 crore of secured loan with Rs 2.18 crore repayment during the next year and working



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capital limit of Rs 7.88 crore as on 31 March 2021. Total indebtedness of the company as reflected by TOL/TNW stood at 2.58x as on March 31, 2021. Debt protection metrics interest coverage ratio and Total debt/GCA are moderate and stood at 6.52x and 2.19x respectively in FY21.

Key Rating Weaknesses

Concentrated Order Book Position

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

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.

Analytical Approach: Standalone

Applicable Criteria



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Rating Methodology for Infrastructure Companies (<https://www.infomerics.com/rating-methodology-detail/infrastructure-companies>)

Financial Ratios & Interpretation (Non- Financial Sector)

(<https://www.infomerics.com/rating-criteria-detail/financial-ratios--implication>)

Liquidity –Adequate

The liquidity of the company is adequate marked by its adequate gross cash accruals of Rs.6.42 crores as against repayment obligation of Rs.2.18 Crores as on March 31, 2021. GCA is expected to be in the range of Rs.6.86-8.32 Crores as against repayment obligation in the range of Rs.1.69-1.89 Crores over the projected period (FY22-24). However, the liquidity profile is restricted due to CIPPL's working capital intensive nature of operations marked highly utilisation cash credit utilisation at ~96% during the past 12 months ended Dec, 2021 and almost full non fund based utilisation. The Current Ratio of the entity stood at 1.33x as per FY21 as against 1.30x in FY20.

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):

(Rs crore)

For the year ended*/As on	31-03-2020	31-03-2021
	Audited	Audited
Total Operating Income	120.86	126.06



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EBITDA	10.19	9.62
PAT	3.90	4.10
Total Debt	10.00	14.09
Tangible Net worth	27.06	31.01
EBITDA Margin (%)	8.43	7.63
PAT Margin (%)	3.21	3.24
Overall Gearing Ratio (x)	0.37	0.45

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Issuer not cooperating and Withdrawn by CRISIL vide press release dated March 25, 2021 due to non-availability of information.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2021-22)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1.	Term Loan	Long Term	2.00	IVR BB+/ Stable (IVR Double B Plus with Stable outlook)	--	--	--
2.	Cash Credit	Long Term	10.00	IVR BB+/ Stable (IVR Double B Plus with Stable outlook)	--	--	--
3.	Bank Guarantee	Short Term	14.50	IVR A4+	--	--	--

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually



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gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine-tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Term Loan	-	-	-	2.00	IVR BB+ Stable (IVR Double B Plus with stable outlook)
Cash Credit	-	-	-	10.00	IVR BB+ Stable (IVR Double B Plus with stable outlook)
Bank Guarantee	-	-	-	14.50	IVR A4+ (IVR A Four Plus)

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

Annexure 3: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/Challa-Infra-Projects-lenders-feb22.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.