Press Release

Civet Projects Pvt. Limited

February 23, 2022

Ratings

Instrument Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long term Bank Facilities - Cash Credit	15.00 (enhanced from Rs.6.66 crore)	IVR BB/Stable Outlook (IVR Double B with Stable Outlook)	Reaffirmed	Simple
Short term Bank Facilities – BG	35.00	IVR A4 (IVR Single A Four)	Assigned	Simple
Total	**50.00 (Fifty Crores Only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of Civet Projects Private Limited continue comfort from its experienced promoters and management team. The rating also factor its healthy order book indicating near to medium term revenue visibility and comfortable capital structure with healthy debt protection metrics. However, these rating strengths are partially offset by nascent stage of business operations, limited geographical diversity in revenue profile, small scale of operations, tender driven nature of business in highly fragmented & competitive construction sector, inherent risk as an EPC Contractor, and impact of Coronavirus (COVID19) pandemic.

Key Rating Sensitivities:

Upward Factors

- Growth in scale of operations with improvement in profitability, and cash accruals on a sustained basis.
- Manage working capital requirements efficiently with improvement in liquidity position.

Downward Factors

- Moderation in scale of operations and/or profitability impacting the liquidity profile
- Moderation in the capital structure with deterioration in overall gearing to more than 1.5x.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced promoters

The promoters has good experience into the management, planning & implementation of different irrigation projects. Mr. Pavan Kumar Reddy (Director), is an engineer by profession having an experience of over 6 years. Mr. Sreekantha Reddy (Director), is an MBA, has an experience of more than a decade. Infomerics believes that though the operations are at nascent stage. However, CPPL is expected to benefit from the experienced management team over the medium term.

Healthy order book indicating near to medium term revenue visibility

The company has unexecuted order book position of ~369.56 Crore as on date as on Dec 31, 2021, to be executed in next 2-3 years provide a near to medium term revenue visibility thereby, giving medium term revenue visibility. Going forward, materialization of the already bided contracts and winning of new contracts will be crucial for the company.

Comfortable capital structure with healthy debt protection metrics

The overall gearing of the company stood comfortable at 1.13x as on March 31, 2021. The debt protection indicators of the company like interest coverage is strong at 2.64x in FY21 (5.24x in FY20) and DSCR at 1.23 times in FY21 (2.21x in FY20). Total Debt/GCA stood at 6.74 years in FY21 as against 2.59 years in FY20. Further, total indebtedness of the company as reflected by TOL/TNW remained comfortable at 1.93x as on March 31, 2021.

Key Rating Weaknesses

Nascent Stage of Business Operations

The company started its operations from February, 2018 hence it has a short track of operations. Since inception the Company mainly executed contracts on subcontracting basis.

Small scale of operation with geographical concentration risk

The scale of operations of the company remained small with total operating income of Rs.49.75 crore in FY21. Small scale of operations restricts the financial flexibility of the company to an extent. Further, the company is exposed to geographic concentration risk as majority of projects executed in the past and the current order book are concentrated in two states viz Madhya Pradesh and Maharashtra. Consequently, any unrest in these states may hamper the performance of the company to a large extent.

Susceptibility of profitability to volatile input prices

CPPL undertakes projects primarily under engineering, procurement and construction basis (EPC) and are active mainly in the field of Irrigation Projects and other allied construction activities. The major inputs required by the company is steel, cement etc. However, all the ongoing contracts contain escalation clause but the same is not sufficient to guard against volatile input material price. Also, Tender based operations limit pricing flexibility in an intensely competitive industry which in turn adversely impact the profitability.

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 company's ability to successfully bid for the tenders as entire business is tender based. The domestic infrastructure/construction 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. CPPL faces direct competition from various organized and unorganized players in the market.

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 company is the sector.

Impact of Coronavirus (COVID-19) pandemic

The Company's revenues are expected to be impacted marginally in the short to medium term because there was disruption in the ongoing projects in the first quarter of current financial year due to lockdown imposed to contain the spread of novel coronavirus. Further the second quarter was also impacted due to rains so the work couldn't commence.

Analytical Approach: Standalone

Applicable Criteria :

Rating Methodology for Infrastructure companies

Financial Ratios & Interpretation Non- Financial Sector

Liquidity – Adequate

The liquidity profile of CPPL is expected to remain adequate marked by its expected satisfactory cash accrual in the range of ~Rs.8.72-18.76 crore for the next three years as against debt repayment obligation around Rs.4.94 – 2.51 crore. Further, the company has adequate gearing headroom for additional debt with an overall gearing of 1.13x as on March 31, 2021 (Aud.) and the company has planned capex or availment of long-term debt plan in the near future which imparts comfort. However, the average working capital utilisation of the company remained around than ~85% during the past 12 months ended Sept, 2021 indicating a limited liquidity buffer.

About the Company

Incorporated in 2018, Hyderabad based Civet Projects Private Limited mainly undertakes canal and reservoir works. Its core areas of work include value chain across sectors such as irrigation projects. Mr. Pavan Kumar Reddy and Mr. Sreekantha Reddy are the promoters of the company, who are having past experience into management, planning & implementation of different projects through their previous associations.

Financials (Standalone):

(Rs. crore)

For the year ended* As on	31-03-2020	31-03-2021
	Audited	Audited
Total Operating Income	50.34	49.75
EBITDA	7.91	7.90
PAT	3.78	1.93
Total Debt	12.91	22.38
Tangible Net worth*	17.09	19.89

For the year ended* As on	31-03-2020	31-03-2021
EBITDA Margin (%)	15.70	15.88
PAT Margin (%)	7.49	3.87
Overall Gearing Ratio (x)	0.76	1.13

**as per Infomerics standards*

Status of non-cooperation with previous CRA : NIL

Any other information: Nil

Rating History for last three years:

Sl. No.	Name of Instrument / Facilities	Current Rating (Year 2021-22)			Rating History for the past 3 years		
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-21 (Dec 08, 2020)	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1.	Cash Credit	Long Term	15.00	IVR BB/Stable Outlook (IVR Double B with Stable Outlook)	IVR BB/Stable Outlook (IVR Double B with Stable Outlook)	-	-
2	BG	Short Term	35.00	IVR A4 (IVR Single A Four)	-	-	

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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 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
Long Term Bank Facilities- Cash Credit	-	-	-	15.00	IVR BB/Stable Outlook (IVR Double B with Stable Outlook)
Short Term Bank Facilities- BG	-	-	-	35.00	IVR A4 (IVR Single A Four)

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

Annexure 3: Facility wise lender details

[Civet-Projects-lenders-feb22.pdf (infomerics.com)](Civet-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