March 30, 2021

Ceigall India Limited: [ICRA]A- (Stable) and [ICRA]A2+ assigned for bank facilities

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based/CC	-	13.28	[ICRA]A- (Stable); Assigned
Short-term – Non-fund based	-	304.00	[ICRA]A2+; Assigned
Long-term/short-term - Unallocated	-	232.72	[ICRA]A- (Stable) / [ICRA]A2+; Assigned
Issuer Rating	-	-	[ICRA]A- (Stable); Outstanding
Total	**-**	**550.00**	

**Instrument details are provided in Annexure-1*

Rationale

The assigned rating reflects the significant ramp-up in Ceigall India Limited's (CIL) operating income, which experienced a CAGR of ~61% over the past five years through FY2020. The rapid revenue growth was led by the change in the company's operations from being a subcontractor for other private players to a principal contractor, executing projects on its own. The accumulation of requisite performance qualifications over the years and the boost in its net-worth position, following the equity infusion of ~Rs. 38.0 crore by the promoters in FY2020, enabled the company to bid for large-sized orders, which resulted in healthy order book build up and favourable revenue growth. The assigned rating positively factors in the company's robust profitability in the recent past, supported by its focus on projects in its core geographic areas, cost-effective raw material procurement and its ability to complete projects on-time/ahead of schedule, among others. CIL has been recently awarded an early completion bonus (ECB) of Rs. 8.62 crore for one of its projects and it is likely to be eligible for another ECB of ~Rs. 80.0 crore for its ongoing orders; these funds are expected to further support its profitability and liquidity in the near term. The rating derives comfort from the company's adequate order book position (~Rs. 2,275.0 crore as on February 28, 2021), which provides revenue visibility in the medium term. The rating positively factors in the company's favourable financial profile, characterised by a conservative capital structure, healthy coverage indicators and strong liquidity position. The rating considers the promoters' extensive experience of over two decades in the road construction segment and the company's proven operational track record of project completion.

The rating is, however, constrained by the execution risk associated with construction contracts and the intensely competitive and fragmented road construction business. CIL's current order book has sizeable projects that are in nascent stage of execution (nearly 50% of the pending orders as on January 31, 2021), wherein the financial progress has been less than 25%, which renders execution risk. The rating also factors in the concentration of CIL's operations on the road segment and in certain geographies of Northern states. The rating also considers the company's exposure to sizeable contingent liabilities in the form of bank guarantees, largely for contractual performance. Nevertheless, ICRA draws comfort from CIL's favourable execution track record and no crystallisation of these guarantees in the past. The rating factors in CIL's exposure to Public Private Partnership (PPP) projects through the recently awarded Hybrid Annuity Model (HAM) road projects, which could put pressure on CIL in case their financial closure is not attained on a timely basis and/or in case of any time/cost overruns in their execution. ICRA notes the equity requirement for the HAM projects to be Rs. 170.0 crore and the same is to be infused over a period of FY2022 to FY2024. While CIL's operational accruals are likely to be comfortable to meet the entire equity requirement of the HAM projects, the same is expected to be partially funded by equity infusion by the promoters into the holding company that has been proposed to be set up for the execution of HAM projects.

The Stable outlook on the long-term rating reflects ICRA's opinion that CIL will continue to benefit from its favourable operational track record in the road construction segment, its reputed clientele including the National Highways Authority of India (NHAI) and the Himachal Pradesh Road and other Infrastructure Development Corporation (HPRIDC) and its healthy order book position.

Key rating drivers and their description

Credit strengths

Healthy order book position – CIL's pending order book position stood at ~Rs. 2,275.0 crore as on February 28, 2021, translating to an order book (OB)/operating income (OI) of 2.87 times (of FY2020's OI), thereby providing healthy revenue visibility in the medium term.

Healthy revenue growth over past five years and robust profitability – CIL's operating income witnessed at a healthy CAGR of ~61% over the past five fiscals through FY2020. The revenues grew sharply by ~219% in FY2020 backed by order book build-up, which was dominated by large-size orders from the NHAI, and the timely execution of the same. Besides, the change in the nature of operations from execution of the orders primarily as a sub-contractor to that of execution as a principal contractor in the recent past also led to its healthy revenue scale up. The company's profitability has been robust in the recent past, with its operating margin ranging between 16% and 17%, aided by its focus on geographical clustering of projects to achieve lower mobilisation costs and optimal deployment of manpower across projects, cost-effective raw material procurement, reduced reliance on sub-contracting, replacement of virgin asphalt with reclaimed asphalt and timely/early project completion.

Comfortable financial profile – CIL's financial profile is characterised by conservative capital structure, healthy coverage indicators and strong liquidity position. Its TOL/TNW (total outside liabilities/tangible net-worth) stood at 0.7 times and 0.5 times as on March 31, 2020 and December 31, 2020, respectively, aided by its limited reliance on external borrowings (including creditors), coupled with its comfortable net worth position of Rs. 192.6 crore and Rs. 254.8 crore as on March 31, 2020 and December 31, 2020. The company's coverage indicators are healthy, as evident from interest coverage, DSCR and total debt/OPBIDTA of 19.3 times, 4.0 times and 0.3 times, respectively, in 9MFY2021 and the same are supported by its robust operating profit margins.

Experience in road construction and proven operational track record – CIL is promoted by Mr. M. P. Singh and Mr. Ramneek Sehgal who have nearly four decades and two decades of experience in the construction segment, respectively. CIL has established operational track record over the years in terms of timely completion of projects, aided by its prudent project identification, optimal resource allocation and project management, among others. The company has been recently awarded an early completion bonus of ~Rs. 8.6 crore for one of the projects it executed for National Highways Authority of India (NHAI). Besides, it was awarded "Gold Award for Excellent in Project Management – EPC" by Government of India in January 2021.

Credit challenges

Execution risk and order book concentration – CIL is exposed to execution risks associated with the contracts, with nearly 50% of its ongoing orders in the nascent stages of execution, wherein the financial progress has been less than 25% as on January 31, 2021. Nonetheless, its proven track record of timely project completion provides comfort to some extent. The company's order book faces high concentration risk, with its entire orders focused in the road construction segment. Besides, 87% of its pending order book comprises projects from the NHAI and rest from the Himachal Pradesh Road and Other Infrastructure Development Corporation (HPRIDC). The projects are located in Northern states of Punjab, Haryana, Himachal Pradesh and Rajasthan.

Intense industry competition and sizeable non-fund based exposure – CIL procures orders through competitive bidding. With multiple players in the road construction segment, the company faces stiff competition, which could constrain its ability to procure new orders. CIL is exposed to sizeable contingent liabilities in the form of bank guarantees (Rs. 107.2 crore as on

February 28, 2021), largely towards performance guarantee and security deposits. Nonetheless, ICRA draws comfort from the healthy execution track record and no crystallisation of guarantees in the past.

Risks pertaining to recently awarded HAM projects – CIL has been shortlisted for two HAM projects for road construction by the NHAI. It has received a letter of award (LoA) for one project in February 2021 and the LoA for another project is expected to be received in April 2021. The company proposes to setup a holding company and two special purpose vehicles (SPV) under the holding company, with each SPV taking care of one HAM project. The total equity requirement for the aforesaid project is ~Rs. 170.0 crore, to be infused over the next three fiscals. The same would be met partially through CIL's internal accruals and the rest would be infused by the promoters directly in the holding company. CIL's financial profile could be adversely impacted if it is unable to achieve financial closure for its two HAM projects or if there is time or cost overrun in the HAM projects, resulting in higher-than-envisaged support from CIL.

Liquidity position: Strong

CIL's liquidity position is **strong,** with considerable buffer in its working capital facilities and sizeable unencumbered cash and bank balances of ~Rs. 108.0 crore as of February 28, 2021. The unencumbered cash is parked in the form of fixed deposits with its lenders. The average utilisation of its fund-based facilities and non-fund based facilities stood at 10.3% and 72.8% of the sanctioned limits, respectively, for the period February 2020 to February 2021. The debt repayment obligation of ~Rs. 20.0 crore in FY2022 can be comfortably met through its estimated cash flow from operations.

Rating sensitivities

Positive factors – ICRA could upgrade CIL's ratings if there is a significant growth in the company's scale of operations, aided by timely execution of the orders in pipeline, sustainable profitability and order book diversification.

Negative factors – Negative pressure on the ratings could arise if lower-than-anticipated billing or decline in profitability or a significant increase in working capital cycle deteriorates its liquidity profile. The rating could also come under pressure if the company undertakes higher-than-expected PPP projects or if is unable to achieve financial closure for its two HAM projects or if there is time or cost overrun in the HAM projects, resulting in higher-than-envisaged support from CIL.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financial of Ceigall India Limited and the limited consolidation of the proposed special purpose vehicles (SPVs) for undertaking the Hybrid Annuity Model (HAM) road projects (refer Annexure-2). For limited consolidation, ICRA has considered financial support in the form of equity infusion and cashflow mismatches in these subsidiaries.

About the company

Ceigall India Limited, incorporated in 2002, by Mr. Mohinder Pal Singh, is an EPC player focusing on infrastructure projects such as roads, highways, flyovers and bridges, among others. The company was initially operating as a sub-contractor for other private EPC players and started to bid for projects as a principal contractor from FY2014. Subsequent to the accumulation of requisite performance qualifications and financial qualifications, it started to bid for large-sized orders from FY2019. At present, the company focuses on executing road projects primarily for the NHAI. Over the past, the company has executed road projects across the states of Punjab, Haryana and Himachal Pradesh.

Key financial indicators (Audited)

CIL Standalone	FY2019	FY2020
Operating Income (Rs. crore)	248.38	791.87
PAT (Rs. crore)	32.69	89.25
OPBDIT/OI (%)	22.65%	16.31%
PAT/OI (%)	13.16%	11.27%
Total Outside Liabilities/Tangible Net Worth (times)	1.51	0.70
Total Debt/OPBDIT (times)	0.45	0.23
Interest Coverage (times)	13.24	21.20

(Source: CIL)

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA:

CIL's rating was moved to 'Issuer Non Cooperation' category by Brickwork Ratings India Private Limited (Brickwork) vide its press release dated September 12, 2019, as CIL did not cooperate in submission of requisite information for conducting the rating review. The rating was subsequently withdrawn by Brickwork, vide its press release dated October 10, 2019.

Any other information: Not Applicable

Rating history for past three years

	Instrument	Current Rating (FY2021)					Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in		FY2020	FY2019	FY2018
					March 30, 2021	March 24, 2021	--	--	--
1	Fund-based – Working capital facilities	Long-term	13.28	-	**[ICRA]A- (Stable)**	-			
2	Non-fund based – Working capital facilities	Short-term	304.00	-	**[ICRA]A2+**	-			
3	Unallocated bank facilities	Long-term/short-term	232.72	-	**[ICRA]A- (Stable)/ [ICRA]A2+**	-			
4	Issuer Rating	Long-term	0.00	-	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**	--	--	--

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs Crore)	Current Rating and Outlook
NA	Fund-based – Working capital facilities	NA	NA	NA	13.28	[ICRA]A- (Stable)
NA	Non-fund based – Working capital facilities	NA	NA	NA	304.00	[ICRA]A2+
NA	Unallocated bank facilities	NA	NA	NA	232.72	[ICRA]A- (Stable)/ [ICRA]A2+
NA	Issuer Rating	NA	NA	NA	0.00	[ICRA]A- (Stable)

Source: *CIL*

Annexure-2: List of entities considered for consolidated analysis

Company Name	CIL's Ownership	Consolidation Approach
Proposed SPV 1 - Bathinda -Mandi Dabwali HAM project	100%	Limited Consolidation
Proposed SPV 2 - Malout-Abohar HAM project	100%	Limited Consolidation

Source: *CIL, ICRA research*

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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