September 24, 2021

Ceigall India Limited: Ratings reaffirmed; long-term rating outlook revised to 'Positive' from 'Stable'

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based/CC	13.28	13.28	[ICRA]A- (Positive); Reaffirmed; outlook revised to 'Positive' from 'Stable'
Short-term – Non-fund based	304.00	304.00	[ICRA]A2+; Reaffirmed
Long-term/short-term - Unallocated	232.72	232.72	[ICRA]A- (Positive)/[ICRA]A2+; Reaffirmed; outlook on long term rating revised to 'Positive' from 'Stable'
Issuer Rating	-	-	[ICRA]A- (Positive); Reaffirmed; outlook revised to 'Positive' from 'Stable'
Total	**550.00**	**550.00**	

**Instrument details are provided in Annexure-1*

Rationale

The revision of outlook to 'Positive' on the long-term rating of Ceigall India Limited (CIL) reflects the significant ramp up in its order book in the past six months to ~Rs, 6,100 crore as on August 31, 2021 as compared to Rs. 2,250 crore as on February 28, 2021, which is expected to support healthy medium-term revenue growth. For 4M FY2022, CIL reported an operating income of ~Rs. 400.0 crore and its revenue growth is expected to remain healthy going forward. Its revenues grew at a CAGR of 48% over the last six fiscals, through FY2021 and stood at Rs. 872.0 crore in FY2021. The company's profitability continues to remain robust, with an operating margin of 18.5% in FY2021 as compared to 16.3% in FY2020, 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. The ratings positively factor in the company's favourable financial profile, characterised by a conservative capital structure, low working capital intensity, healthy coverage indicators and strong liquidity position. Increased scale of operations, along with sustenance of healthy profitability and low working capital intensity is expected to result in improvement in CIL's financial risk profile. The ratings also factor in 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 ratings are, 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 August 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 such as Punjab, Haryana, Himachal Pradesh and Rajasthan, among others. 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 increased exposure to development 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 in a timely manner and/or in case of any time/cost overruns in their execution. ICRA notes the equity requirement for the first two HAM projects (awarded in FY2021) of Rs. 170.0 crore is to be infused in FY2022-FY2023 and can be majorly funded from the existing liquidity of the company. Besides, the company has recently emerged as L1 in three HAM projects from NHAI, the equity commitments of these are likely to be phased over the next three years (FY2023 – FY2025) and is likely to be met with CIL's cash flows from operations during this period. CIL's liquidity could get impacted in case if it undertakes further HAM projects in the near term, or if there are significant delays/cost overruns in the existing projects.

Key rating drivers and their description

Credit strengths

Healthy order book position – CIL's pending order book position stood at Rs. 6,100 crore as on August 31, 2021 (as compared to Rs. 2,275 crore as on February 28, 2021), translating to an order book (OB)/operating income (OI) of 7.0 times of FY2021's OI. While the OB/OI ratio is high, it includes HAM based road projects which are likely to start execution in H2-FY2023. Adjusting for the same, the current order book provides healthy revenue visibility with strong growth potential over the medium term. This apart the company has also emerged as L1 in two more HAM projects in September 2021, thereby taking its HAM portfolio to 5 projects. Its order book, therefore, is likely to increase by further ~Rs. 1,500 crore to Rs. 2000 crore by March 2022.

Sustained revenue growth and robust profitability – CIL's operating income witnessed at a healthy CAGR of ~48% over the past six fiscals through FY2021. 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 revenues grew by 10% in FY2021 and is likely to witness a healthy growth of 20%-30% in FY2022, aided by its sizeable order book position. The company's profitability continues to remain robust at 18.5% in FY2021, at the operating level, 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 0.5 times as on March 31, 2021, aided by its limited reliance on external borrowings (including creditors), coupled with its comfortable net worth position of Rs. 304.8 crore as on March 31, 2021. The company's coverage indicators remain healthy, as evident from interest coverage, DSCR and total debt/OPBIDTA of 24.6 times, 5.1 times and 0.2 times, respectively, in FY2021 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 awarded an early completion bonus of ~Rs. 8.6 crore from National Highways Authority of India (NHAI) and it expects to receive further early completion bonus over the next 6-12 months. 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 August 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, nearly 90% 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, among others.

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. 185.9 crore as on August 31, 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 was awarded two HAM projects for road construction by the NHAI in Q4 FY2021 and the company has 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 these two projects is ~Rs. 170.0 crore, to be infused over next 2 years. Besides, it has been recently emerged L1 for three more HAM projects, the equity commitments of which is likely to be phased over FY2023-FY2025. CIL has also proposed to extend corporate guarantee for the first two HAM projects till the receipt of two semi-annual annuities. While CIL's operational cash flows and its strong liquidity position is likely to remain adequate for meeting the equity commitments for its current HAM projects, its financial profile could be adversely impacted if it is unable to achieve financial closure for its 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. 149.9 crore as of March 31, 2021. The unencumbered cash is parked in the form of fixed deposits with its lenders. The utilisation of its non-fund based facilities stood at 60.1% of the sanctioned limits as on August 31, 2021. The debt repayment obligation of ~Rs. 20.1 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 the pipeline, and if the company is able to sustain its profitability and liquidity at healthy levels.

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 BOT projects or if it is unable to achieve financial closure for its 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). While CIL proposes to extend corporate guarantees for the external borrowings that would be availed by the proposed SPVs, the same would be limited only till the time of receipt of the first two semi-annuities. Hence, a limited consolidation approach has been adopted by ICRA. For limited

	consolidation, ICRA has considered financial support that is anticipated to be extended by CIL in the form of equity infusion/unsecured loans to meet the project cost and cashflow mismatches, if any, 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	FY2021
Operating Income (Rs. crore)	248.38	791.87	872.61
PAT (Rs. crore)	32.69	89.25	111.79
OPBDIT/OI (%)	22.65%	16.31%	18.46%
PAT/OI (%)	13.16%	11.27%	12.81%
Total Outside Liabilities/Tangible Net Worth (times)	1.51	0.70	0.54
Total Debt/OPBDIT (times)	0.45	0.23	0.18
Interest Coverage (times)	13.24	21.20	24.65

(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 (FY2022)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in	FY2021		FY2020	FY2019
					September 24, 2021	March 30, 2021	March 24, 2021	--	--
1	Fund-based – Working capital facilities	Long-term	13.28	-	**[ICRA]A- (Positive)**	**[ICRA]A- (Stable)**	-		
2	Non-fund based – Working capital facilities	Short-term	304.00	-	**[ICRA]A2+**	**[ICRA]A2+**	-		
3	Unallocated bank facilities	Long-term/short-term	232.72	-	**[ICRA]A- (Positive)/ [ICRA]A2+**	**[ICRA]A- (Stable)/ [ICRA]A2+**	-		
4	Issuer Rating	Long-term	0.00	-	**[ICRA]A- (Positive)**	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**	--	--

Complexity level of the rated instrument

Instrument	Complexity Indicator
Fund-based working capital facilities	Simple
Non-fund based working capital facilities	Very Simple
Unallocated limit	Not Applicable
Issuer Rating	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's 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- (Positive)
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- (Positive)/ [ICRA]A2+
NA	Issuer Rating	NA	NA	NA	0.00	[ICRA]A- (Positive)

Source: *CIL*

Annexure-2: List of entities considered for consolidated analysis

Company Name	CIL's Ownership	Consolidation Approach
Ceigall Bathinda Dabwali Highways Private Limited	100%	Limited Consolidation
Ceigall Malout Abohar Sadhuwali Highways Private Limited	100%	Limited Consolidation
Proposed SPVs for three new HAM projects from NHAI	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.

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