

January 30, 2023

## Cherian Varkey Construction Company Private Limited: Ratings reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based CC	109.00	84.0	[ICRA]A- (Stable); Reaffirmed
Long-term/Short-term – Non-fund based – Bank Guarantee	170.00	200.0	[ICRA]A- (Stable)/ [ICRA]A2+; Reaffirmed
Long-term/Short-term – Unallocated Limits	70.00	0.0	-
<b>Total</b>	<b>349.00</b>	<b>284.0</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The ratings reaffirmation takes into account the established operational track record of Cherian Varkey Construction Company Private Limited (CVCC) in executing projects pertaining to the roads, bridges and building segments. The ratings consider the adequate order book position of Rs. 609 crore as on December 31, 2022 and strong financial profile, characterised by healthy operating profit margins, low leverage and adequate coverage indicators. CVCC's liquidity profile is comfortable with moderate utilisation of working capital limits and sizeable unencumbered cash balances of around Rs. 101.9 crore as on November 30, 2022.

The ratings are, however, constrained by its modest scale of operations with revenues of Rs. 245.2 crore in FY2022 owing to muted order addition during the last fiscal and slow execution. The scale of operations has reduced substantially from FY2019 level, wherein the company registered revenues worth Rs. 409.2 crore. Further, the revenues are expected to remain significantly lower than category medians owing to slow order execution despite healthy order book position. Any delay in execution or payment receipts from these projects can affect its revenues and liquidity position. Going forward, its ability to materially improve the revenues while maintaining strong financial profile would remain a key rating monitorable. The ratings are also constrained by the moderate client and project concentration risks with the top five projects accounting for 78% of the order book as on December 31, 2022. The ratings are also constrained by exposure of CVCC's operating margins to adverse variation in the raw material, labour, and other input costs with price escalation clauses generally limited to cement and steel.

The Stable outlook reflects ICRA's opinion that CVCC would benefit from timely project execution while maintaining its profitability margins and liquidity position.

### Key rating drivers and their description

#### Credit strengths

**Strong financial risk profile and liquidity position** – CVCC's financial risk profile is strong with healthy operating margins, low leverage and satisfactory coverage indicators. The leverage as reflected by TOL/TNW remained low at 0.9 times as on March 31, 2022 owing to high net worth levels and low creditors. The coverage metrics are satisfactory with interest cover of 5.2 times in FY2022 on account of healthy operating profit margins and is expected to remain comfortable in the medium term. The company's liquidity profile is adequate, characterised by moderate utilisation of working capital limits and free cash balances of Rs. 101 crore as on November 30, 2022.

**Adequate order book position** – CVCC has an order book of Rs. 609.5 crore as on December 31, 2022, which translates to 2.5 times of FY2022 revenues providing medium-term revenue visibility. Although the company did not receive any orders in FY2022, addition of orders worth Rs. 362.8 crore in 9M FY2023 supported its order book position.

**Established operational track record in the civil construction industry** – CVCC has proven execution capability in the execution of roads, bridges, and building segments. In addition, the company has presence in RMC supply and housing projects construction. However, the civil construction segment contributes to more than 90% of its revenues during the past five years. The company has adequate employee base and own fleet of machinery supporting its project execution.

### Credit challenges

**Modest scale of operations** – CVCC has modest scale of operations with revenues of Rs. 245 crore in FY2022, which declined from Rs. 409.2 crore in FY2019 owing to slow order execution and addition. Although the company billed Rs. 191 crore in 9M FY2023, the revenues are estimated to remain at around Rs. 250 crore in FY2023 despite healthy order book position owing to slow order execution.

**High geographical and project concentration risks** – CVCC's operations are restricted to Kerala, resulting in high geographical concentration risk. The project concentration is also high with top five projects accounting for 78% of the order book as on December 31, 2022. Any delay in execution or payment receipts from these projects can affect its revenues and liquidity position.

**Intense competition in the construction industry** – CVCC is exposed to intense competition in the construction industry and tender-based contract award system. However, its established track record and presence of price escalation clauses for cement and steel to support the operating margins to an extent.

### Liquidity position: Adequate

The company's liquidity position is adequate with moderate utilisation of working capital limits and free cash balances of Rs. 101 crore as of November 2022. The average utilisation of fund-based facilities remained moderate at 48.9% in the past 14 months ending November 2022. In absence of significant capex plans and low repayment obligations, CVCC's liquidity position is likely to remain comfortable over the medium term.

### Rating sensitivities

**Positive factors** – Significant growth in scale of operations on the back of healthy order addition, along with diversification of order book while maintaining profitability margins and liquidity position would support rating upgrade.

**Negative factors** – Pressure on the ratings could arise if the company is unable to materially improve its order book position or revenues. Further, any stretch in working capital cycle, especially due to delay in collections adversely impacting the liquidity position could put pressure on the ratings.

### Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology-Construction</a>
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

## About the company

Cherian Varkey Construction Company Private Limited (CVCC) is a Kochi-based construction contractor. It was established in 1975 as a proprietorship concern by Mr. Cherian Varkey. Re-constituted in 2000 as a private limited company, CVCC undertakes contracts primarily in the infrastructure segment for construction of roads, bridges, metro projects, etc, and buildings for private players. Its major clients include government departments in Kerala such as Kerala PWD, Kerala State Construction Corporation (KSCC), and private players such as Siemens, Qatar Airways among others. Apart from its contracts division, it has a ready-mix concrete manufacturing division, and a housing division that undertakes small-scale real estate projects. CVCC is closely held by the family of the company's founder, Mr. Cherian Varkey.

## Key financial indicators (audited)

CVCC	FY2021	FY2022
Operating income	249.3	245.2
PAT	20.9	13.7
OPBDIT/OI	13.0%	12.9%
PAT/OI	8.4%	5.6%
Total outside liabilities/Tangible net worth (times)	0.8	0.9
Total debt/OPBDIT (times)	2.0	2.7
Interest coverage (times)	5.4	5.2

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for past three years

Instrument	Type	Current rating (FY2023)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as on March 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
				Jan 30, 2023	Oct 29, 2021	Jul 31, 2020	Apr 29, 2019
1 Cash Credit	Long term	84.0	84.0	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
2 Bank Guarantee	Long term and short term	200.0	200.0	[ICRA]A- (Stable)/[ICRA]A2+	[ICRA]A- (Stable)/[ICRA]A2+	[ICRA]A- (Stable)/[ICRA]A2+	[ICRA]A- (Stable)/[ICRA]A2+
3 Unallocated	Long term and short term	0.0	0.0	-	[ICRA]A- (Stable)/[ICRA]A2+	-	-

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based CC	Simple
Long-term/Short-term – Non-fund based – Bank Guarantee	Very Simple

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 are available on ICRA's website: [Click Here](#)

#### Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based Facilities	NA	NA	NA	84.0	[ICRA]A- (Stable)
NA	Non-fund based Facilities	NA	NA	NA	200.0	[ICRA]A- (Stable)/ [ICRA]A2+

Source: Company

#### Annexure II: List of entities considered for consolidated analysis – Not Applicable

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