

May 20, 2024

Chandra Singh Contractor: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Overdraft	5.00	6.65	[ICRA]BB- (Stable); reaffirmed
Long-term – Fund-based – Term loan	1.25	0.40	[ICRA]BB- (Stable); reaffirmed
Short-term – Non-fund based – Others	0.90	0.10	[ICRA]A4; reaffirmed
Total	7.15	7.15	

*Instrument details are provided in Annexure-I

Rationale

The reaffirmation of ratings factors in the extensive experience of Chandra Singh Contractor (CSC) in the business of civil construction and interior works, along with a long track record of successful project execution without any major delays. Additionally, the firm maintains healthy relationship with its clients, which helps in securing incremental business. ICRA takes note of its moderate leverage and satisfactory debt coverage metrics, along with an increase in its turnover during the last two years after a sharp decline during the pandemic in FY2021. The company's operating income (OI) in FY2023 was Rs. 31.9 crore (110% growth over FY2022), which is projected to rise to Rs. 35.0 crore in FY2024 (provisional). With an outstanding order book of Rs. 36.42 crore as on March 01, 2024, the order book to operating income (OB/OI) would be around 1.04 times, which provides short-term revenue visibility. Going forward, its turnover is likely to remain stable with marginal increase.

The ratings are, however, constrained by the firm's modest scale of operations and order book position, which is unlikely to increase significantly in the medium term. Further, CSC is exposed to geographical concentration risk in the order book, with orders executed primarily in Jaipur (Rajasthan), along with high client concentration risk over the last few years. The ratings also consider the intense competition and fragmented nature of the industry, which could constrain its profitability. ICRA notes that since CSC is a proprietorship firm, any significant withdrawal from the capital account by the proprietor could adversely affect its net worth, capital structure and liquidity, which remains a risk. During the last two years, the net capital withdrawals remained high in comparison to its net profits, leaving limited liquidity buffer in the business. Nevertheless, buffer in the firm's working capital limits continue to support its liquidity. However, the flow of capital would remain a monitorable to access the credit profile of the firm in future. The ratings continue to be constrained by the high working capital intensity on the back of elongated working capital cycle, despite some improvement over the last two years.

The Stable outlook on the rating reflects ICRA's expectation that CSC will be able to maintain its credit profile over the medium term, supported by its orders-in-hand and moderate leverage position. Further, the outlook underlines ICRA's expectations that the company's working capital and short-term fund requirements would be funded in a manner that is able to durably maintain its debt protection metrics commensurate with the existing rating.

Key rating drivers and their description

Credit strengths

Long track record of executing civil construction projects in Rajasthan; long relationship with established client base – CSC executes civil construction projects mostly for private clients in Rajasthan since 1975. The firm is also registered as a Class-AA contractor with the Government of Rajasthan, having a track record of successful project execution in the civil construction industry. It has well-established and healthy relationships with its clients, which has helped it in securing repeat orders.

Healthy profitability metrics – CSC's operating margins have remained healthy over the years barring the pandemic years when execution of projects was delayed. Most contracts executed by the firm have a built-in price escalation clause for key raw materials, which partially mitigates the impact of volatile raw material prices on its profitability. Its profitability is supported by stable income from windmill operations.

Credit challenges

Modest scale of operation and order book position – While the firm clocked revenues of Rs. 31.9 crore in FY2023 and Rs. 35.0 crore in FY2024 (Provisional), its scale remains small, which is unlikely to increase significantly in the near term. Further, there has been an improvement in execution since FY2022 and FY2021 and inflow of new orders resulting in a modest overall order book position of Rs. 36.42 crore as on March 01, 2024, which indicated limited growth and revenue visibility in the short term.

Risks related to proprietorship firm structure – CSC is a proprietorship firm, and there have been continuous capital withdrawals by the proprietor from the business in the past. High capital withdrawals adversely impacted its net worth over the past few years. The net capital withdrawals in FY2023 and FY2024 accounted for 97% and 76%, respectively, thereby impacting the firm's net worth and liquidity.

High client and geographical concentration risks – CSC remains exposed to high geographical concentration risk, with orders executed largely in Jaipur and some parts of Rajasthan. Moreover, the order book is restrained to a limited set of clients, which exposes it to high client concentration risk. The top five clients accounted for over 90% revenues over the last five years. Additionally, it faces segment-wise concentration as all outstanding orders are from the civil construction segment. The top three of the seven pending orders constituted 87% of the outstanding order book as on March 01, 2024.

Intense competition in industry – The civil construction segment is characterised by intense competition with various contactors having Class-AA category registration for government projects and presence of a large number of contractors for private clients. This leads to highly competitive bids, thereby putting pressure on the revenue and margins of industry players. However, CSC's long association with the clients alleviates the risk to a certain extent.

Liquidity position: Adequate

The firm's liquidity position is adequate with fund flow from operations of more than Rs. 5.0 crore expected in FY2024, which would be sufficient to meet the debt servicing obligations. With an average 63% utilisation (during the last 12 months that ended in December 2023) of its overdraft limit, CSC maintains reasonable buffer in the form of unutilised working capital limits.

Rating sensitivities

Positive factors – The ratings could be upgraded if the firm demonstrates a healthy improvement in its scale on the back of healthy orders inflow and profitable operations leading to an overall improvement in its net worth and liquidity on a sustained basis.

Negative factors – The ratings could be downgraded if there is a significant decline in the firm’s profitability and cash accruals on a sustained basis. Further, any stretch in the working capital cycle or substantial capital withdrawal resulting in pressure on the liquidity could trigger a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology – Construction
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Chandra Singh Contractor (CSC) was established as a proprietorship firm by the Jaipur-based Mr. Chandra Singh in 1975. The firm is located in Jaipur, Rajasthan and is a registered ‘Class-AA’ contractor with the Public Works Department, Government of Rajasthan. It mainly undertakes civil construction work for commercial buildings, educational institutes and hotels. CSC’s scope of work covers various items such as handling civil, electrical, plumbing, heating, ventilation and air conditioning (HVAC) and artistic sandstone/marble works. The firm initially dealt with public sector projects and later diversified into private sector projects. Its activities are majorly focused in and around Jaipur and some other parts of Rajasthan. In addition, CSC operates one windmill with a capacity of 1.5MW located at Jaisalmer (Rajasthan), which was commissioned in late FY2015.

Key financial indicators (audited)

	FY2022	FY2023	FY2024*
Operating income (Rs. crore)	15.2	31.9	35.0
PAT (Rs. crore)	2.6	5.4	6.0
OPBDIT/OI (%)	23%	20%	20%
PAT/OI (%)	17%	17%	17%
Total outside liabilities/Tangible net worth (times)	0.3	0.7	0.6
Total debt/OPBDIT (times)	0.9	1.2	1.0
Interest coverage (times)	14.2	16.6	15.8

Source: Company Data; ICRA Research; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; *Provisional

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2025)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				May 20, 2024	-	Feb 24, 2023	Dec 24, 2021
1 Fund-based - Overdraft	Long-term	6.65	-	[ICRA]BB-(Stable)	-	-	-
2 Fund-based - Cash credit	Long-term	0.00	-	-	-	[ICRA]BB-(Stable)	[ICRA]BB (Negative)

3	Fund-based – Term loan	Long-term	0.40	1.18	[ICRA]BB-(Stable)	-	[ICRA]BB-(Stable)	[ICRA]BB (Negative)
4	Non-fund based – Others	Short-term	0.10	-	[ICRA]A4	-	[ICRA]A4	[ICRA]A4

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Overdraft	Simple
Long-term – Term loan	Simple
Short-term – Non-fund based – Others	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	Overdraft*	NA	NA	NA	6.65	[ICRA]BB- (Stable)
NA	Term loan	FY2024	NA	FY2029	0.40	[ICRA]BB- (Stable)
NA	Bank guarantee	NA	NA	NA	0.10	[ICRA]A4

Source: Company; * Includes Rs. 0.60 crore of additional limits along with Rs. 6.05 crore of sanctioned overdraft limit

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

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