

October 30, 2024

CHR Constructions: [ICRA]BB-(Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Cash credit	27.00	[ICRA]BB- (Stable); assigned
Long-term – Non-fund based – Bank guarantee	53.00	[ICRA]BB- (Stable); assigned
Total	80.00	

*Instrument details are provided in Annexure-I

Rationale

The assigned rating for CHR Constructions (CHR) factors in the promoters' significant experience in construction of roads, buildings, irrigation and canal works, along with its reputed client base comprising mainly Government agencies such as State Highway Development Project (SHDP), Karnataka, Ministry of Road Transport and Highways of India (MORTH), Karnataka Road Development Corporation Limited (KRDCL), Karnataka Neeravari Nigam Limited (KNNL) and Krishna Bhagya Jala Nigam Ltd (KBJNL), Visveswaraya Jala Nigam Limited (VJNL), etc. The rating considers the adequate order book position of Rs. 288 crore as on August 31, 2024 (including orders of Rs. 86 crore, where the entity is L1) providing medium-term revenue visibility.

The rating, however, is constrained by its modest scale of operations with expected revenues in the range of Rs. 110 crore in FY2025, and exposure to region-specific economic and political risks, given its order book is entirely based out of Karnataka. The order book is exposed to execution risk as ~94% of the order book as on August 31, 2024 is in the nascent stages of execution (with work yet to commence). Further, it remains vulnerable to inherent sectoral risks like stiff competition, cost and time overruns. The rating is constrained by the inherent exposure to sizeable contingent liabilities in the form of bank guarantees, mainly for contractual performance and security deposits. Nonetheless, ICRA draws comfort from the promoter's execution track record and the absence of invocation of guarantees in the past. The rating is also exposed to risks inherent in a partnership firm, including the possibility of capital withdrawals, which may affect the capital structure and liquidity position.

The Stable outlook on the rating reflects ICRA's opinion that the firm is likely to leverage on the resourcefulness of its promoters in terms of its execution track record, supported by its current order book.

Key rating drivers and their description

Credit strengths

Experienced promoter in execution of road contracts, buildings, irrigation and canal works – CHR's promoter has more than two decades of experience in executing roads, buildings, irrigation and canal works. Further, the firm is recognised as a Class-I contractor by the Karnataka Government, which enables it to participate in various projects of the state government departments. The promoter, Mr. C Halappa, executed works under sole proprietorship from 2010 till July 2024. The business was carried under a proprietorship concern in the name of M/S Halappa C and it is now converted into a partnership firm in the name of 'CHR Constructions', promoted by Mr. Halappa C and his family members. The constitution is changed to a partnership firm to get eligibility for participation in medium to large value tenders.

Adequate order book provides near-term revenue visibility – CHR has an order book of Rs. 288 crore as on August 31, 2024 (including Rs. 86.7 crore L1 orders), which translates to 3 times of the FY2024 revenue, providing medium-term revenue visibility. The firm's ability to secure new orders and improve work execution remains a key monitorable in the near term.

Credit challenges

Modest scale of operations – The entity’s scale of operations remains modest with expected revenues of more than Rs. 110 crore in FY2025. Although the firm’s revenues are expected to increase in the medium term, the scale is likely to remain modest constraining its operational and financial flexibility.

Order book exposed to high execution and concentration risks – The geographical concentration risk remains high with the entire order book limited to Karnataka. The firm faces high project and client concentration risk with MORTH order contributing to 64% of the order book. It is also exposed to high execution risk as billing is yet to commence for ~94% of the order book. Given this, timely ramp-up of execution of the orders will be critical in sustaining the revenue going forward.

Risk of capital withdrawal, given its constitution as a partnership firm – Given its constitution as a partnership firm, CHR is exposed to discrete risks, including the possibility of capital withdrawal by the partners and limited ability to raise capital, among others, which may affect the capital structure and liquidity position. The firm has sizeable contingent liabilities in the form of bank guarantees, mainly for contractual performance and security deposits. Nonetheless, ICRA draws comfort from promoter’s execution track record and the absence of invocation of guarantees in the past.

Liquidity position: Stretched

The firm’s liquidity position is stretched as the working capital limits are yet to be sanctioned, which is expected to happen in the near term. The cash flows from operations, however, is likely to be sufficient for debt repayments and capex funding. The liquidity is anticipated to be supported by the timely receipt of payments from its key customer.

Rating sensitivities

Positive factors – The rating could be upgraded if the firm demonstrates an improvement in its scale of operations, earnings and liquidity position on a sustained basis.

Negative factors – Pressure on the rating could arise if there is a significant decline in scale of operations, or operating margins, or any significant debt-funded capex or increase in working capital cycle weakening the debt coverage indicators or liquidity position on a sustained basis. Specific credit metrics for a rating downgrade include interest coverage declining to less than 2.0 times on a prolonged basis.

Analytical approach

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

About the company

M/S CHR Constructions, is a partnership firm constituted in April 2023 with Mr. Halappa C being the managing partner. He was earlier undertaking the business under a sole proprietorship concern, which was operated in the name of M/S Halappa C since 2010. Although the partnership firm was registered in April 2023, the business transfer from the individual name ‘M/S Halappa C’ to a partnership firm was completed in June 2024. CHR is a Class-I road contractor with Karnataka Government departments, primarily undertaking civil/allied works from government departments, municipal corporations and quasi-government organisations. The firm is undertaking works related to roads (state highways and national highways), canals, tanks, feeder nalas, bridges, buildings (commercial and residential) in Karnataka.

Key financial indicators

Not available as the firm started business operations from July 2024 post the transfer of business from sole proprietorship concern to partnership firm.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Current (FY2025)				Chronology of rating history for the past 3 years					
FY2025				FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs. crore)	Oct 30, 2024	Date	Rating	Date	Rating	Date	Rating
Fund-based – Cash credit	Long term	27.00	[ICRA]BB-(Stable)	-	-	-	-	-	-
Non-fund based – Bank guarantee	Long term	53.00	[ICRA]BB-(Stable)	-	-	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Cash credit	Simple
Long-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	Cash credit	NA	NA	NA	27.00	[ICRA]BB- (Stable)
NA	Bank guarantee	NA	NA	NA	53.00	[ICRA]BB- (Stable)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

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

ANALYST CONTACTS

Ashish Modani

+91 20 6606 9912

ashish.modani@icraindia.com

Suprio Banerjee

+91 22 6114 3443

supriob@icraindia.com

Vinay G

+91 40 6939 6424

vinay.g@icraindia.com

KBS Siva Krishna

+91 40 6939 6415

k.krishna@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar

+91 22 6114 3406

shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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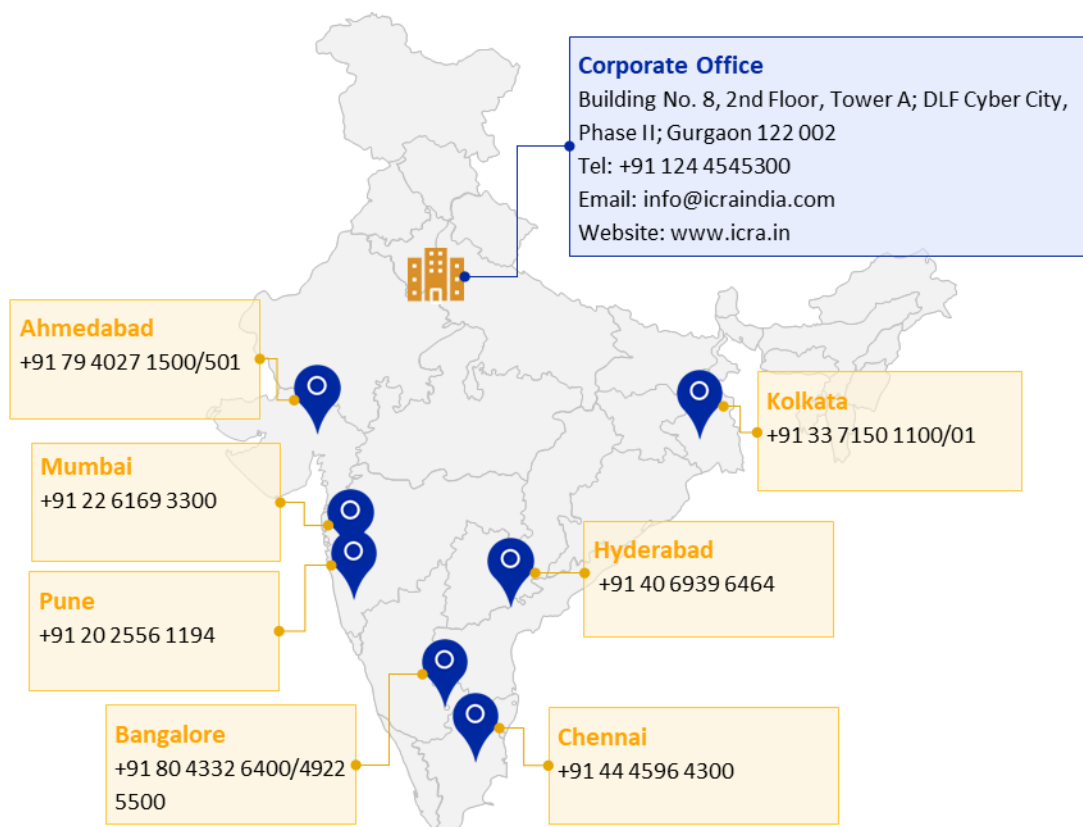


Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45



Branches



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