

December 29, 2020

Cnr Infratech: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based/CC	3.00	3.00	[ICRA]BB- (Stable); Reaffirmed
Short term – Non Fund-based/BG	3.80	3.80	[ICRA]A4; Reaffirmed
Long-term/Short-term – Unallocated	7.20	7.20	[ICRA]BB- (Stable)/[ICRA]A4; Reaffirmed
Total	14.00	14.00	

*Instrument details are provided in Annexure-1

Rationale

The ratings reaffirmation is constrained by Cnr Infratech's (Cnr) small scale of operations in the civil construction industry with revenues of Rs. 39.03 crore in FY2020 and high geographical concentration risk with the entire order book and revenues coming from Andhra Pradesh. The ratings are constrained by its low operating profit margins owing to limited value addition in building construction works. Further, Cnr is exposed to high customer concentration risk with the entire order book comprising orders from the Central Public Works Department (CPWD).

The ratings, however, positively consider moderate revenue visibility with order book of Rs. 69.31 crore as on November 01, 2020, and low counterparty credit risk with client base consisting mainly of Government agencies such as CPWD, Tirumala Tirupati Devasthanam (TTD), etc.

The Stable outlook on the [ICRA]BB- rating reflects ICRA's opinion that Cnr will benefit from its moderate order book position and timely receipt of payments from its customers.

Key rating drivers and their description

Credit strengths

Significant experience of promoters in building construction works – The promoters have more than two decades of experience in undertaking building construction works. The firm is a class-I contractor and executes projects involving construction of buildings, primarily for CPWD and TTD in Tirupati, Andhra Pradesh.

Low counterparty credit risk – The firm's client portfolio mainly consists of Government departments such as CPWD and TTD, reducing the counterparty credit risk. The payments are received within 10-15 days from the clients after the certification of bills. All these projects have allocated funds and the payments are released in a timely manner, supporting its liquidity position.

Moderate revenue visibility – The order book remained moderate at Rs. 69.31 crore as on November 01, 2020, which provides medium-term revenue visibility as most of the orders have an execution period of 12-15 months. Further, the firm has received two new projects of Rs. 28 crore from TTD in December 2020, which would improve its revenue visibility.

Credit challenges

High geographical concentration risk – The firm’s revenue profile is highly concentrated in Andhra Pradesh (accounting for 100% of the total revenues in FY2020), resulting in high geographical concentration risk. Further, 100% of the outstanding order book is limited to Andhra Pradesh.

High customer concentration risk – The firm’s customer profile is limited to CPWD and TTD, resulting in high customer concentration risk. However, long-term association with the customers mitigates the customer concentration risk to an extent.

Thin operating margins – Given the limited value addition in building construction works, the firm’s operating profit margins are low. Further, the operating margins decreased to 3.82% in FY2020 from 5.95% in FY2019.

Liquidity position: Adequate

The firm’s liquidity position is **adequate** with sufficient cushion available in the working capital limits. Further, the average working capital limit utilisation stood moderate at 54.50% in the past 15 months ending in November 2020. It had submitted BGs against 100% cash margin given the low BG limits. Timely enhancement of working capital limits remains critical to support the expected increase in working capital requirements. Furthermore, absence of any repayment obligation is likely to support its liquidity position to an extent.

Rating sensitivities

Positive triggers – The ratings may be upgraded if the firm’s scale of operations and profitability margins improve on a sustained basis. Specific credit metrics that may lead to an upgrade of Cnr’s ratings include interest coverage above 2.8 times on a sustained basis.

Negative triggers – The ratings may be downgraded if there is a decline in the firm’s scale of operations or deterioration in the working capital cycle adversely impacting its liquidity position. Specific credit metrics that may lead to a downgrade of Cnr’s ratings include interest coverage of less than 2 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Methodology for Construction Entities
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the firm’s standalone financials.

About the company

Cnr Infratech is a partnership firm, established in 2018 by Mr. C. Nageswara Rao. Before founding Cnr, the promoter was undertaking the civil construction business under sole proprietorship from 1998. Cnr is in the business of construction of buildings for Government departments. The firm is a class-I contractor executing projects for CPWD and TTD. It primarily operates in Tirupati, Andhra Pradesh.

Key financial indicators

	FY2019	FY2020*
Operating Income (Rs. crore)	11.26	39.03
PAT (Rs. crore)	0.25	0.54
OPBDIT/OI (%)	5.95%	3.82%
PAT/OI (%)	2.26%	1.39%
Total Outside Liabilities/Tangible Net Worth (times)	0.59	1.02
Total Debt/OPBDIT (times)	5.09	1.92
Interest Coverage (times)	2.62	2.61

Source: Cnr Infratech; *provisional

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

Current Rating (FY2021)					Rating History for the Past 3 Years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Rating Dec-29-2020	FY2020 Dec-17-2019	FY2019	FY2018
1 Cash Credit	Long-term	3.00	-	[ICRA]BB-(Stable)	[ICRA]BB-(Stable)	-	-
2 Bank Guarantee	Short-term	3.80	-	[ICRA]A4	[ICRA]A4	-	-
3 Unallocated	Long-term/short-term	7.20	-	[ICRA]BB-(Stable)/[ICRA]A4	[ICRA]BB-(Stable)/[ICRA]A4	-	-

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	3.00	[ICRA]BB- (Stable)
NA	Bank Guarantee	NA	NA	NA	3.80	[ICRA]A4
NA	Unallocated	NA	NA	NA	7.20	[ICRA]BB- (Stable)/[CRA]A4

Source: Cnr Infratech

Annexure-2: List of entities considered for consolidated analysis- Not applicable

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