January 25, 2021

Chevrox Constructions Pvt. Ltd.: Ratings reaffirmed at [ICRA]BBB-/[ICRA]A3; outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based limits – CC/OD/Others	30.00	20.00	[ICRA]BBB- reaffirmed; outlook revised to Stable from Negative
Non-fund based limits – BG/LC	78.00	88.00	[ICRA]A3 reaffirmed
Unallocated limits	22.00	22.00	[ICRA]BBB-/A3 reaffirmed; outlook revised to Stable from Negative
Total	**130.00**	**130.00**	

** - Instrument details are provided in Annexure-1*

Rationale

The reaffirmation of ratings and revision of outlook to Stable for Chevrox Constructions Pvt. Ltd. (Chevrox) takes into account the commencement of execution of several projects in Q4 FY2020 following the initial delays faced in getting the required approvals and the gradual ramp up in execution over 8M FY2021. ICRA notes that while the adverse impact of Covid-19 resulted in a sub-optimal execution pace for Chevrox over April-June 2020, the same has recovered well over the past few months and ICRA expects the operating income and cash accruals to improve steadily, going forward.

The ratings continue to favourably factor in the track record of Chevrox's management team in the civil construction business and its strong business linkage to its Group concern, Iron Triangle Limited (ITL; rated [ICRA]A(Stable)/A1). ICRA notes that Mr. Kishor Viramgama, one of the promoters of ITL and a veteran of the construction industry in Gujarat, is the chairman of both Chevrox and ITL. Further, ITL has been sub-contracting some of its orders to Chevrox. The ratings note the company's Special Category-II (Building) registration with the State Government of Gujarat, along with its strategic tie-ups with several leading construction companies in the state, which aids in sourcing engineering, procurement and construction (EPC) sub-contracts. ICRA also considers its outstanding order book position of Rs. 1,146 crore as of November 30, 2020, which provides revenue visibility for the next two to three years. The ratings also factor in the geographically diversified order book with projects spread across six states. The ratings further take into consideration Chevrox's expansion of machinery fleet in FY2020, which will support the growth of its operations.

The ratings are, however, constrained by the moderate scale and limited track record of Chevrox's operations as well as the high concentration of the order book on a few orders with the two road sub-contracts in Chhattisgarh and a water reservoir sub-contract in Rajasthan accounting for 24% and 19% of the order book, respectively. The ratings also take into account the execution and funding risks associated with the projects in the initial stages of execution that account for over 73% of the order book as on November 30, 2020. The ratings also factor in the moderation in the financial profile in FY2020 due to delays faced in commencement of execution of several projects. However, ICRA notes that with expected improvement in the overall execution, the financial profile should improve, going forward. The ratings also take into consideration the vulnerability of Chevrox's profitability to fluctuations in input prices of raw materials and the criticality of timely completion and delivery as per contract terms to avoid liquidated damage (LD) claims. The ratings are also constrained by the intense competition in the road and building construction sector.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters and management team in civil construction sector – Mr. Kishor Viramgama, a veteran of the construction industry in Gujarat, is the chairman of Chevrox. Moreover, all the three founding promoters of Chevrox have extensive industry experience. The promoters' established track record, coupled with a team of experienced professionals, ensures adequate in-house project planning and execution capabilities. The company has adequate infrastructure in terms of construction machinery and skilled manpower and has been awarded the Special Category-II (Building) certification by the State Government of Gujarat.

Strong business linkages to ITL and strategic tie-ups with other construction majors aid in sourcing new EPC contracts – Chevrox has a strong business linkage to ITL, which is co-promoted by Mr. Kishor Viramgama. A significant proportion of work undertaken by the company in FY2018-FY2020 was sub-contracted to it by ITL. Apart from this, Chevrox has strategic tie-ups with several other construction majors. It has worked as EPC sub-contractors for these companies in the past and has also been able to secure projects directly in joint venture (JV) with these large construction companies.

Healthy outstanding order book provides medium-term revenue visibility – As on November 30, 2020, the company had 12 ongoing projects with an outstanding order book size of Rs. 1,146 crore providing revenue visibility for the next two to three years. The order book size of Chevrox increased over 8M FY2021 by securing three new projects with a combined contract value of Rs. 397 crore, two of which were bid in JV with other construction companies.

Geographically diversified order book – Chevrox, despite being a predominantly Gujarat-based player, has diversified its geographical presence over the past 3-4 years and currently has ongoing projects across six states. The concentration of projects in Chhattisgarh in its total order book stood at 33% as on November 30, 2020, followed by Bihar (19%) and Rajasthan (19%).

Credit challenges

Moderate scale and limited track record of operations – Though constituted as a private limited company in 2010, Chevrox still has a limited track record of operations, since it began to execute more and larger-value projects only over the last three to four years. Given its short operational track record and its modest net worth of Rs. 38.6 crore as on March 31, 2020, Chevrox has only limited eligibility to bid for large value projects and has to rely on undertaking projects sub-contracted to it by ITL and other construction majors, or in JVs with these construction majors to bid directly.

Project concentration risk – The order book of Chevrox remained healthy at Rs. 1,146 crore with 12 ongoing projects as on November 30, 2020. However, about 19% (i.e., Rs. 216 crore) of the order book value was driven by the sub-contract project in Rajasthan secured from ITL in October 2019 and an additional 24% (i.e., Rs. 280 crore) of the order book was led by two road sub-contracts in Chhattisgarh, secured from Montecarlo Ltd. in April 2019 for which the appointed date was received in August 2019. Given the above, the top five projects combined contributed ~60% to Chevrox's outstanding order book, thus exposing it to concentration risks.

Execution risks for all upcoming projects – During 8M FY2021, Chevrox secured projects with a total contract value of Rs. 397 crore. Additionally, given the nation-wide lockdown and the stringent social distancing rules during April-June 2020, the execution of a few of these projects was adversely impacted. Thus, as on November 30, 2020, about 73% of the outstanding order book was constituted by projects where less than 10% of the total work was completed and are, hence, prone to higher execution risks. Receiving the pending approvals for these projects in a timely manner will be the key to ensure revenue growth over FY2021-FY2022.

Moderation in financial profile over FY2020 owing to delays in securing approvals – Chevrox's operating income (OI) dropped significantly to Rs. 131.6 crore in FY2020 mainly due a significant delay in commencement of execution of a few projects. This resulted in lower absolute profits and cash accruals. Also, the company undertook debt-funded capex to expand its machinery fleet in FY2020. As a result, the leveraging (Total Debt/OPBDITA) increased to 2.1 times in FY2020 from 1.0 times in FY2019 and the debt coverage indicator moderated to 2.1 times in FY2020 from 2.8 times in FY2019. Going forward, with expected improvement in the overall execution and no significant debt-funded capex plans, the leveraging and debt protection metrics are likely to improve gradually.

Vulnerability of profitability to price fluctuation risk – Chevrox's profitability remains vulnerable to fluctuations in input prices for the contracts that it secures on its own, which does not incorporate a price escalation clause. However, as most of its projects are currently sub-contracted to it by ITL and other construction majors, Chevrox is protected from the price fluctuation risk to a large extent.

Liquidity position: Adequate

Chevrox's liquidity position remains adequate with annual fund flow from operations of Rs. 17 crore in FY2020 and free cash and liquid investment of Rs. 1 crore as on September 30, 2020. The company also had a sanctioned fund-based working capital facility of Rs. 20.0 crore, the average utilisation of which remained moderate at ~65% over the past 12 months. ICRA notes that Chevrox availed moratorium on its repayments under the RBI's Covid-19 regulatory package for some of its outstanding loans during H1 FY2021. Also, in October 2020, Chevrox received a fresh sanction of Rs. 3.7 crore of working capital loans under the emergency credit line guarantee scheme of the Government of India, which will support its liquidity position, going forward. The liquidity is affected to some extent by the moderate scheduled repayments over the next 2-3 years.

Rating sensitivities

Positive triggers – ICRA could upgrade the rating if there is any significant and sustained increase in the scale of operations, coupled with sustenance of healthy operating margin.

Negative triggers – Negative pressure on the ratings can arise if there is any delay in project execution, resulting in lower-than-expected revenue and profitability, or if there is any higher-than-expected debt-funded capex or any large LD claims.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Construction Entities
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financial profile of the company

About the company

Chevrox was constituted as a private limited company in 2010 by Mr. Mit Viramgama, Mr. Subhash Patel, and Mr. Hitesh Chaniyara in Rajkot (Gujarat). Chevrox is primarily involved as an EPC sub-contractor for various building and road projects in Gujarat, Bihar, Rajasthan and Chhattisgarh. The company also undertakes construction work for bridges, flyovers, water and waste-water treatment plants, industrial projects, pipelines, institutional and high-end real estate. It enjoys strong business linkages with the established construction company, ITL. Mr. Kishor Viramgama, a co-promoter in ITL, is the chairman of Chevrox, as well as the father of Mr. Mit Viramgama, one of the co-promoters of Chevrox.

In FY2020, as per the audited financials, the company reported a net profit of Rs. 11.0 crore on an OI of Rs. 131.6 crore, compared to a net profit of Rs. 17.4 crore on an OI of Rs. 244.3 crore in the previous year.

Key financial indicators (audited)

	FY2019	FY2020
Operating Income (Rs. crore)	244.3	131.6
PAT (Rs. crore)	17.4	11.0
OPBDIT/OI (%)	14.0%	19.7%
RoCE (%)	57.3%	26.9%
Total Outside Liabilities/TNW (times)	2.8	3.2
Total Debt/OPBDIT (times)	1.0	2.1
Interest Coverage (times)	8.4	5.1
DSCR (times)	2.8	2.1

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2020		Date & Rating in FY2019	Date & Rating in FY2018
					25-Jan-2021	06-Feb-2020	24-Jun-2019	19-Nov-2018	-
1	Fund Based limits – CC/OD/Others	Long Term	20.00	13.30	[ICRA]BBB- (Stable)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Stable)	[ICRA]BB+ (Stable)	-
2	Non Fund Based limits – BG/LC	Short Term	88.00	82.40	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A4+	-
3	Unallocated limits	Long Term/ Short Term	22.00	-	[ICRA]BBB- (Stable)/A3	[ICRA]BBB- (Negative)/ A3	[ICRA]BBB- (Stable)/ A3	-	-

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 click here

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 limits	-	-	-	20.00	[ICRA]BBB-(Stable)
NA	Non-fund based limits	-	-	-	88.00*	[ICRA]A3
NA	Unallocated limits	-	-	-	22.00	[ICRA]BBB-(Stable)/A3

** Includes Rs. 10 crore interchangeability with fund based limit*

Source: Chevrox Constructions Pvt. Ltd.

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

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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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