May 27, 2022

Cicon Engineers Pvt Ltd: Ratings reaffirmed; outlook revised to Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based	10.00	10.00	[ICRA]BB+ Reaffirmed; (outlook revised to Positive from Stable)
Short-term – Non-Fund Based	65.00	65.00	[ICRA]A4+ Reaffirmed;
Total	**75.00**	**75.00**	

**Instrument details are provided in Annexure-1*

Rationale

The revision in outlook reflects the expected improvement in Cicon Engineers Private Limited's (Cicon) credit profile, driven by its improved order book and liquidity position. Cicon's order book has improved to Rs. 215.3 crore as on March 31, 2022 from Rs. 155.7 crore as on September 30, 2021 providing revenue visibility in the near to medium term. Improved operating leverage along with cost control measures resulted in an operating margin of 8.6% in FY2022, against operating losses in FY2021. Moreover, interest-free mobilisation advances from customers along with better execution led to an improved liquidity with overall fund-based limit utilisation of ~50% in April 2022 compared to almost 100% utilisation in September 2021. The company is likely to sustain its revenue growth momentum and profitability going forward, given its healthy order book with most of the orders having an in-built price escalation clause. The ratings continue to favourably factor in the company's established presence in the construction business with expertise in execution of industrial, institutional, commercial and residential projects. Its promoters have extensive experience spanning three decades in the construction segment. The ratings continue to note its reputed clientele and the company's track record of receiving repeat orders from such customers.

The ratings are, however, constrained by the modest scale of operations and stiff competition from other players in the construction segment, which exerts pressure on its profit margins. While the turnover has improved in FY2022, it has remained 32% lower than the pre-Covid level. Moreover, Cicon remains exposed to order book concentration with the entire order book emanating from Bangalore, exposing the company to economic and political risks pertaining to a single region. It also has high sectoral concentration with over 55% revenues derived from the institutional segment.

Key rating drivers and their description

Credit strengths

Established track record in construction business – Cicon was established in 1987 and was later converted into a private limited company in 1997. The promoters have vast experience spanning three decades in the construction business with expertise in executing industrial, institutional, commercial and residential projects. The management is supported by a strong technical team comprising ~650 employees.

Reputed client base – The company mainly caters to the private sector clients comprising various reputed private sector players across sectors such as Bosch Ltd., Brigade Group, Vaishnavi Infrastructure Pvt Ltd and various educational institutions. Its established relationship with these clients has aided in securing repeat orders.

Improvement in order book position – There company's order book position improved to Rs. 215.3 crore as on March 31, 2022 from Rs. 155.7 crore as on September 30, 2021, though the OB/OI remained moderate at 1.7 considering FY2022 revenues. The order book provides revenue visibility in the near to medium term, which is likely to support revenue growth in FY2023.

Credit challenges

Modest scale of operation – Cicon has a modest scale of operations with revenues sharply declining by 50% year-on-year (YoY) to Rs. 95.8 crore in FY2021. The company's revenues partially recovered in FY2022 to Rs. 129.3 crore, though it continues to remain lower than FY2020 revenues (Rs. 193.4 crore). It expects to report a revenue growth of 20-25% for FY2023 given the improvement in its order book position. As per the provisional financials, the company's operating margins have improved in FY2022 to 8.6% and consequently its interest coverage ratio has also improved to 5.1 times in FY2022. While Cicon has in-built price escalation clause in its contracts, its ability to pass on the volatility to the customers remains crucial for its profitability.

High order book concentration – The company's order book is geographically concentrated with Bangalore contributing to the entire share of its outstanding orders, which exposes it to economic and political risks pertaining to a single region. Additionally, the company's operations have exposure to the educational institutional segment, wherein operations and cash flows had been affected during the pandemic. The customer concentration risk is also moderately high, given that the top three customers accounted for ~57% of the unexecuted order book as on March 31, 2022. Any delay in execution or payments can affect its revenues and liquidity position.

Stiff competition in construction segment – The construction industry is highly competitive and fragmented with presence of numerous small as well as large players, impacting the pricing flexibility and profitability of players like Cicon. Its reputed clientele and established relationship with them mitigate this risk to an extent. The company's ability to secure orders and further improve its order book position would remain crucial, going forward.

Liquidity position: Adequate

The company's liquidity position is adequate. It had unencumbered cash balance of Rs. 0.3 crore as on March 31, 2022. Over the last six months up to March 2022, its cash credit limits were 71% utilised. However, ICRA notes that the utilisation has reduced to 45-50% in March 2022 and April 2022, leaving a moderate undrawn buffer. Nevertheless, Cicon has no major principal repayment obligation in the near to medium term. The promoters have also provided interest-free unsecured loans in the company to tide over temporary cash flow mismatches and ease the overall liquidity position.

Rating sensitivities

Positive factors – The rating can be upgraded if there is a sustained improvement in scale of operation and profitability along with improvement in its working capital intensity and liquidity position.

Negative factors – Substantial decline in order execution or new order inflows, which materially impact turnover and profitability could result in rating revision. Moreover, deterioration in working capital cycle or liquidity position will be a credit negative.

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 company's standalone financial profile

About the company

Cicon, a construction company, was incorporated by Mr. M. Shashidhar as Cicon Engineers, a partnership firm, in 1987. It was reconstituted as a private limited company in 1997. It primarily undertakes civil construction projects comprising industrial, institutional, commercial and residential projects. The company has executed most of its projects in Bangalore.

Key financial indicators (audited)

Cicon Engineers Pvt. Ltd.	FY2021	FY2022#
Operating Income (Rs. crore)	95.83	129.71
PAT (Rs. crore)	-7.18	5.32
OPBDIT/OI (%)	-1.59%	8.57%
PAT/OI (%)	-7.49%	4.10%
Total Outside Liabilities/Tangible Net Worth (times)	0.97	0.92
Total Debt/OPBDITA (times)	-7.46	0.60
Interest Coverage (times)	-0.79	5.07

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

#provisional financials

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on April 30, 2022 (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					May 27, 2022	Dec 07, 2021	Dec 08, 2020	Sep 06, 2019
1	Cash Credit	Long-term	10.0	-	[ICRA]BB+ (Positive)	[ICRA]BB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2	Non-fund based	Short-term	65.0	--	[ICRA]A4+	[ICRA]A4+	[ICRA]A3+	[ICRA]A3+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based	Simple
Short-term – Non-fund Based	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: www.icra.in

Annexure-1: Instrument details

ISIN /Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	-	-	-	10.0	[ICRA]BB+(Positive)
NA	Non-fund Based	-	-	-	65.0	[ICRA]A4+

Source: *Company*

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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