March 09, 2023

Chennai Radha Engineering Works (P) Limited: Rated amount enhanced.

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund-based limits	55.00	65.00	[ICRA]A (Stable); assigned/outstanding
Long-term/Short-term – Non fund based limits	205.00	230.00	[ICRA]A (Stable)/[ICRA]A1; assigned/outstanding
Long-term/Short-term – Sublimit^	(271.00)	(271.00)	[ICRA]A (Stable)/[ICRA]A1; outstanding
Long-term/Short-term – Sublimit^	($6.6 Million)	($6.6 Million)	[ICRA]A (Stable)/[ICRA]A1; outstanding
Total	**260.00**	**295.00**	

**Instrument details are provided in Annexure-I*

^ Sub-limits under Long-Term/Short-Term Non-fund Based Limit

Rationale

The assigning of the ratings factors in the established track record of Chennai Radha Engineering Works (P) Limited (CREW) in providing operations and maintenance (O&M) services for bulk material handling systems, mainly at the thermal power stations and ports. Although the company is exposed to renewal risk for the ongoing contracts, its past track record and established relationship with reputed customers mitigate the risk to an extent. CREW's revenue growth is expected to be robust in FY2023-24 in the backdrop of a robust order book and pipeline amid strong leverage, debt coverage metrics and liquidity position. In FY2022, the company's revenues grew by 17% YoY to Rs. 954.3 crore, driven by increase in the order book position. The revenues are expected to grow by 30-40% in FY2023, riding on healthy order inflow in the current fiscal with an order book of Rs. 3,151 crore as of September 2022 (i.e. 3.3 times of FY2022 revenues). With healthy operating margins and limited long-term debt, the debt coverage and leverage metrics are likely to remain strong over the medium term. The ratings also note CREW's comfortable liquidity position with free cash balance of Rs. 69.8 crores as of March 2022, driven by higher collections even as it moderated with the increased pace of order execution during the following fiscal.

The ratings are, however, constrained by the company's range-bound scale of operations, which limits its ability to participate in bids for larger orders, especially in the engineering, procurement and construction (EPC) segment. Though the increase in revenue in current fiscal will allow the company to bid for higher value orders. The company is exposed to customer concentration risk with ~50% of its revenues generated from its top-five customers with moderately high dependence on a single customer, Tamilnadu Generation & Distribution Corporation Limited (TANGEDCO), that has a moderate financial profile. In light of the higher execution in FY2023 driven by incremental new orders from TANGEDCO, the customer concentration has increased in the current fiscal, which could moderate to some extent with higher orders from other tenders. ICRA also notes that the EPC order inflows depend on capital investments by the end-user industry and thus, the revenues may be lumpy, linked to the execution of such projects. CREW faces competition from larger domestic and multinational companies in this segment and its performance is susceptible to the investment cycle in the thermal power and the port sectors.

The Stable outlook on the ratings reflects ICRA's opinion that CREW's revenues and accruals will be supported by its comfortable order inflow. Also, the company will continue to benefit from its established track record in the O&M of material handling systems.

Key rating drivers and their description

Credit strengths

Established player with extensive experience in O&M segment - CREW, incorporated in 1984, has an established track record of more than three decades in providing O&M services (~39% of total revenues in FY2022) for bulk material handling systems, especially for coal handling and ash handling plants in thermal power stations and ports. The company commands a healthy market share in the O&M segment, especially in the power sector.

Healthy order book - The company's order book remained healthy at Rs. 3,151 crore as on September 30, 2022 (i.e. 3.3 times of FY2022 revenues), a growth of 45% compared to Rs. 2,170 crore as on September 30, 2021. This was mainly driven by increased order inflow from O&M (64% growth in order book on YoY basis), mining (35%) and EPC segments (18%), providing healthy revenue visibility in the near to medium term. The O&M order book position remained healthy at Rs. 1,964 crore, primarily backed by the renewal and tenure extension of the existing contracts as well as receipt of new orders from TANGEDCO and NTPC. The company has been receiving new orders in the EPC and the mining segments. A healthy order flow and the timely renewal of contracts due for expiry will be key to sustaining the company's revenue growth.

Comfortable financial profile and liquidity - The company's financial profile is characterised by healthy margins and comfortable coverage indicators. The gearing remained healthy at 0.2 times as on March 31, 2022. Moreover, CREW's coverage indicators were comfortable, reflected in its interest coverage of 16.3 times, total debt/OPBITDA of 0.8 times and NCA/total debt of 108% as on March 31, 2022. The company's liquidity position remained comfortable with cash and bank balances of Rs. 69.8 crore as on March 31, 2022, along with comfortable cushion in the fund-based working capital limits. The company's credit metrics and profitability indicators are likely to remain comfortable over the medium term with stable revenues, profits and cash accruals, backed by healthy order inflows and limited capex plans.

Credit challenges

Customer concentration risk - The company is exposed to customer concentration risks with ~50% of its revenues generated by its top-five customers. Moreover, CREW remains exposed to counterparty credit risks as 20% of its revenues is from a single customer, TANGEDCO, that has a moderate financial profile. Further, in 9M FY2023, revenues from TANGEDCO remained around Rs.688.3 crore, which accounted for 60% of the total revenue achieved during the period. This was mainly due to the execution of EPC orders from TANGEDCO. Going forward, the revenue from TANGEDCO is expected to remain in the range of 20-30%, as per the current order book position. Nevertheless, the company's projects with TANGEDCO that are backed by funding from the state government mitigate the risk to an extent.

Scale of operations remained rangebound in past three years with sharp revenue growth expected in FY2023 with increased contribution from EPC segment – The scale of operations of the company has remained rangebound in the past three years with operating income (OI) of Rs. 954.3 crore against Rs. 814.5 crore in FY2021. Though in FY2023, the company expects sharp revenue growth with increased contribution from EPC segment which will allow the company to bid for higher value orders. The company will continue to face competition from large domestic and multinational companies in EPC segment.

Lumpy revenue from EPC segment; revenues exposed to cyclicality in thermal power and port sectors – The revenues generated from the EPC segment and related-product sales are volatile, given the lumpy nature of the contracts in this segment. Further, this segment may face execution delays due to delays in receiving the necessary approvals. Also, the order book in this segment is impacted by the capex cycle in the thermal power and the port sectors. The contracts also remain exposed to the fluctuations in raw material prices given the fixed-price contracts in the EPC segment. Nonetheless, CREW's ability to pass through the increase in raw material prices by providing certain margin in the order value mitigates the risk to an extent.

Exposure to execution risks and intense competition - CREW is exposed to execution risks in the O&M segment with delays in completion of the civil part of the projects and in the EPC segment because of delays in receiving the necessary approvals.

Further, the company's exposure to intense competition from both domestic and global players with a local presence could have an adverse impact on its profitability metrics.

Liquidity position: Strong

CREW has a strong liquidity profile reflected in its sizeable unencumbered cash balance of Rs. 69.8 crore as on March 31, 2022, along with working capital limits of 30% and limited capital expenditure plans. Further, the cash accruals are expected to remain adequate to cover the debt repayments.

Rating sensitivities

Positive factors – ICRA could upgrade CREW's ratings if there is a sustained improvement in revenues and profitability with diversification in the end-user industries, while maintaining the working capital metrics.

Negative factors – Pressure on the ratings could emerge if there is a consistent decline in profitability or revenues due to lower-than-anticipated order inflows, or if there is a substantial stretch in the working capital cycle.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial statement

About the company

CREW was established as a proprietorship entity in 1984, before being converted into a private limited company in 2005. The company supplies O&M services and undertakes turnkey projects on an EPC basis for bulk material handling systems, mainly for ports and thermal power stations. It also provides support services in some ports like stevedoring, operates mobile harbour cranes at Paradip Port and Karaikal Port and support services for surface mining. CREW also handles the installation of electrical equipment and wiring works, interior furnishing works and testing works for railway coaches. Additionally, it undertakes coal-overburden removal projects. CREW's facility is near Ponneri, Chennai.

In FY2022, the company reported a net profit of Rs. 63.2 crore on an operating income (OI) of Rs. 954.3 crore against a net profit of Rs. 60.4 crore on an OI of Rs. 814.5 crore in the previous year.

Key financial indicators (audited)

	FY2021	FY2022
Operating income	814.5	954.3
PAT	60.4	63.2
OPBDIT/OI	15.0%	12.0%
PAT/OI	7.4%	6.6%
Total outside liabilities/Tangible net worth (times)	0.5	0.5
Total debt/OPBDIT (times)	0.5	0.8
Interest coverage (times)	13.3	16.3

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (2023)					Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Mar 09, 2023	Mar 06, 2023	Mar 21, 2022	Jan 05, 2021	Mar 05, 2020
1	**Cash credit**	Long term	65.00	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Positive)
2	**Non fund based limits**	Long term/ Short term	230.00	-	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A (Stable)/[ICRA]A1	[ICRA]A (Stable)/[ICRA]A1	[ICRA]A- (Positive)/ [ICRA]A2+
3	**Sublimit***	Long term/ Short term	(271.00)	-	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A (Stable)/[ICRA]A1	[ICRA]A (Stable)/[ICRA]A1	[ICRA]A- (Positive)/ [ICRA]A2+
4	**Sublimit***	Long term/ Short term	(US $ 6.6 Million)	-	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A (Stable)/[ICRA]A1	[ICRA]A (Stable)/[ICRA]A1	[ICRA]A- (Positive)/ [ICRA]A2+
5	**Unallocated limits**	Long term/ Short term	-	-	-	-	[ICRA]A (Stable)/[ICRA]A1	-	-

*Amount in Rs. crore; *Sublimit of non-fund based facility*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term – Fund-based limits	Simple
Long-term/Short-term – Non fund based limits	Very Simple
Long-term/Short-term – Sublimit	Very Simple
Long-term/Short-term – Sublimit	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	Long term – Fund-based limits	NA	NA	NA	65.00	[ICRA]A (Stable)
NA	Long-term/Short-term – Non fund based Limits	NA	NA	NA	230.00	[ICRA]A (Stable)/[ICRA]A1
NA	Long-term/Short-term – Sublimit	NA	NA	NA	(271.00)	[ICRA]A (Stable)/[ICRA]A1
NA	Long-term/Short-term – Sublimit	NA	NA	NA	(US $ 6.6 Million)	[ICRA]A (Stable)/[ICRA]A1

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

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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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