

Coastal Consolidated Structures Pvt. Ltd

July 11, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Cash Credit	2.00	17.00	[ICRA]B(Stable); assigned/outstanding
Non-fund-based Limits	-	20.00	[ICRA]B(Stable)/[ICRA]A4; assigned
Unallocated Limits	8.00	-	-
Total	10.00	37.00	

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned the long-term rating of [ICRA]B (pronounced ICRA B) to the Rs. 17.00-crore¹ (enhanced from Rs. 2.00-crore) cash-credit facility of Coastal Consolidated Structures Pvt. Ltd. (CCSPL)². ICRA has also assigned the long-term rating of [ICRA]B and short-term rating of [ICRA]A4 (pronounced ICRA A four) to the Rs. 20.00-crore non-fund-based limits of CCSPL. The outlook on the long-term rating is Stable.

Rationale

The ratings assigned are constrained by tight liquidity position of the company, as reflected by 100% average utilisation of its fund-based limits between March 2017 and May 2018 owing to delayed payments from clients, modest execution progress, given the nascent stage of a large portion of work orders and small scale of operations with operating income of Rs. 15.49 crore in FY2018. The ratings also consider weak financial risk profile, characterised by total Debt-to-OPBDITA of 3.93 times and NCA to total debt of 8.46% in FY2017.

The ratings, however, positively factor in CCSPL's long track record in the construction industry, specifically in the construction of marine structures and its association with reputed clients such as L&T Limited, GMR Projects Pvt. Ltd., BGR Energy Systems Limited (BGR), Afcons Infrastructure Limited (AIL), Hindustan Construction Company Ltd. etc.

Going forward, the ability of the company to improve its scale of operation while managing its working capital requirements would remain the key rating drivers.

Outlook: Stable

The Stable outlook reflects ICRA's expectation that CCSPL will continue to benefit from the extensive experience of the management in the construction industry and healthy order book position, providing revenue visibility in the medium term. The outlook may be revised to Positive if substantial growth in revenue and profitability, and better working capital management, strengthen the financial risk profile. The outlook may be revised to Negative if further slowdown in order

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

execution or cost escalation results in lower-than-expected cash accruals, or if any major capital expenditure, or a stretch in the working capital cycle, further weakens liquidity.

Key rating drivers

Credit strengths

Extensive experience of promoters in the construction industry spanning over two decades - CCSPL was established by Mr. M V Ranga Prasad in 1996 to execute civil work. The promoter has more than three decades of experience in executing contract work and specialises in marine structures like break water construction, jetties, slipways and in various civil and structural work such as excavation, dredging, road and port work.

Reputed client portfolio - The client portfolio of the company consists of reputed companies such as L&T Limited, GMR Projects Pvt. Ltd., BGR, AIL, reducing the counterparty risk. At present, the company has four orders, one each from BGR, Hindustan Construction Company Ltd. (HCC), Goa State Infrastructure Development Corporation Limited (GSIDCL) and AIL.

Credit challenges

High working capital intensity; delayed payments from clients constrained the liquidity position – CCSPL's working capital intensity has remained high between 61% and 85% over the past five years, except in FY2017, owing to high debtors on the back of delayed payments from clients. The company has around Rs. 14.50 crore of debtors outstanding for more than three years primarily from MARG Ltd. and Bharati Defence and Infrastructure Limited (formerly Bharati Shipyard Limited). Due to high pending receivables, the company's average limit utilisation has been at 100% between March 2017 and May 2018.

Modest execution progress of current order book- The execution progress of the current order book is modest given the nascent stage of work orders due to pending clearances from customers. However, the company has an outstanding order book of Rs.186.19 crore (12.02 times of operating income of FY2018) as on May 31, 2018 providing revenue visibility for the medium term.

Decline in operating income over past two years - The operating income has declined from Rs. 30.76 crore in FY2015 to Rs. 23.94 crore in FY2016 and further to Rs. 7.98 crore in FY2017 owing to slow movement of the order book. The operating income, however, increased to Rs.15.49 crore in FY2018 albeit on a low base, owing to improved order execution.

Weak financial risk profile - The financial risk profile of the company was weak with moderate debt coverage ratios, as indicated by NCA/TD% of 8.46%, Total Debt to OPBDITA of 3.93 times and an interest coverage of 1.58 times in FY2017 owing to lower scale of operations and higher working capital requirement.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Construction Entities](#)

About the company:

CCSPL, based out of Vijayawada, Andhra Pradesh, was established in 1996 by Mr. M V Ranga Prasad and undertakes civil work such as excavation, dredging, road and ports work. The company also specialises in marine structures like break water construction, jetties, slipways etc. CCSPL's operations are overseen by its Managing Director Mr. M V Ranga Prasad, who is a mechanical engineer and has been involved in the construction industry for the past three decades.

Key financial indicators (Audited)

	FY2016	FY2017
Operating Income (Rs. crore)	23.94	7.38
PAT (Rs. crore)	0.49	0.20
OPBDIT/OI (%)	20.43%	62.66%
RoCE (%)	11.35%	10.15%
Total Debt/TNW (times)	1.17	1.21
Total Debt/OPBDIT (times)	3.57	3.93
Interest coverage (times)	2.05	1.58

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)		Chronology of Rating History for the Past 3 Years					
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating		Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016	
				July 2018	July 2018				
1	Cash Credit	Long Term	17.00	-	[ICRA]B (Stable)	[ICRA]B (Stable)	-	-	-
2	Non-fund based	Long / Short Term	20.00	-	[ICRA]B (Stable)/ [ICRA]4	-	-	-	-
3	Unallocated Limits	Long / Short Term	-	-	-	[ICRA]B (Stable)/ [ICRA]4	-	-	-

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 No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	-	-	-	17.00	[ICRA]B(Stable)
NA	Bank Guarantee	-	-	-	20.00	[ICRA]B(Stable) / [ICRA]A4

Source: CCSPL

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