

August 24, 2017

CCL International Limited

Summary of rated instruments

Instrument*	Rated Amount (in crore)	Rating Action
Fund-based limits	5.00	[ICRA]BB (Stable); Reaffirmed
Non-fund based limits	8.50	[ICRA]A4+; Reaffirmed
Total	13.50	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]BB (pronounced as ICRA double B) assigned to the Rs. 5.00-crore fund-based limits and the short-term rating of [ICRA]A4+ (pronounced ICRA A four plus) assigned to the Rs. 8.50-crore non-fund-based limits of CCL International Limited (CIL). The outlook on the long term rating is 'Stable'.

Rationale

ICRA's ratings reaffirmation takes into account CIL's weak operating performance in FY2017 which resulted into operating loss, though the company reported Rs. 2.96 crore of net profit owing to monetization of investments. Furthermore, the company sold surplus real estate asset in FY2017 in order to improve the cash flows. ICRA has reaffirmed ratings based on the premise that the profitability in FY2018 will improve, though largely in second half of the year, as the new construction contracts are at much higher rates compared to old contracts. The ratings continue to draw comfort from CIL's experienced management and the company's pending order book of Rs. 157.05 crore, as on June 30, 2017, which provides adequate revenue visibility in short to medium term; the company's ability to convert the order book into sales within the stipulated time frame will be crucial. The ratings are, however, constrained by the high regional concentration risk in the construction segment given that bulk of the company pending order book is from the Eastern parts of India. The ratings also take into account the vulnerability of the company's profitability to adverse fluctuations in raw material prices as most of the contracts are fixed price in nature.

Going forward, execution of current order book and also secure fresh orders while improving the profitability and efficiently manage the working capital will be the key rating sensitivities. Any significant debt-funded capex will be closely monitored.

Key rating drivers

Credit strengths

- **Experience of the management in the construction business** –In April 2011, the company amalgamated AAR Infrastructure Limited with itself in order to facilitate diversification for CIL, promoted by the same management, involved in civil construction work. CIL is a registered "Class I" contractor for the Public Works Department (PWD) of Meghalaya and Assam. For construction purpose, CIL uses German Technology called 'EvoCrete¹'.

¹ "EvoCrete" is a unique formulation which provides for modification of soil making it appropriate for road construction. It provides for a soil stabilization technique which binds the soil with adequate quantity of cement and water ensuing in development of solid concrete slab.

- **Healthy order book of Rs. 157.05 in the construction division provides revenue visibility** – CIL is executing projects awarded by PWD (Meghalaya), PWD (Haryana) and PWD (Assam) for construction and improvement of roads and bridges. The company's ability to convert the order book into sales within the stipulated time frame will be crucial.
- **Low counterparty default risk as contracts from Government entities** – Most of CIL's contracts at present are awarded by PWD, mitigating the counterparty default risks to some extent.

Credit weaknesses

- **Operations largely restricted to Eastern parts of India; exposure to risks of region concentration and sector concentration** – Exposure to risk arising out of regional concentration with major order book as well as projects in pipeline are from Eastern parts of India. Since most of the company's work comprises construction of roads, it remains exposed to sector-concentration risk as well.
- **Decline in revenue in FY2017 leading to low profitability which impact coverage indicators** – The company's operating profit deteriorated in FY2017, characterised by operating margin of Rs. 0.35%, Total Debt/OPBDITA of 56.95 times and interest coverage ratio of 0.16 times owing to delay in execution of the past orders which had to be completed in FY2017 incurring relatively higher costs, resulting in operating loss. The operations continue to be working capital intensive, resulting in stretched liquidity profile as reflected in the consistently high utilisation of sanctioned limits.
- **Exposure to raw material price risk** – Absence of raw material price escalation in construction contracts exposes the company's profitability to any significant volatility in the material prices.

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:

CCL International Limited (CIL) was originally incorporated in 1991 as Gupta Cements Private Limited. The company was converted into a Public Limited Company and further changed its name to Chirawa Cements Limited in 1995. The name was further changed to CCL International Limited in 2008. The company is managed by Mr. Akash Gupta. CIL was involved in trading of steel and different types of fabric till FY2015. This apart, the company amalgamated AAR Infrastructure Limited with itself from April 2011, AAR Infrastructure Limited was promoted by the same management and was involved in civil construction work like roads, sewer etc.

For FY2017, the company reported net profit of Rs. 2.96 crore on an operating income of Rs. 65.40 crore, as compared to a net profit of Rs. 0.85 crore on an operating income of Rs. 78.61 crore for the previous year.

Financial Snapshot (Audited):

Particulars	FY2015	FY2016	FY2017
Operating Income (Rs. crore)	94.34	78.61	65.40
PAT (Rs. crore)	1.03	0.85	2.96
OPBDIT/ OI (%)	3.73%	4.79%	0.35%
RoCE (%)	5.90%	5.90%	8.10%
Total Debt/ TNW (times)	0.28	0.32	0.32
Total Debt/ OPBDIT (times)	2.95	3.25	56.95
Interest Coverage (times)	2.68	2.31	0.16
NWC/ OI (%)	13.36%	26.92%	32.67%

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:
Table:

S. No.	Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. Crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015	
				August 2017	December 2016	September 2015	July 2014	
1	Cash Credit	Long Term	5.00	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)	
2	Letter of Credit	Short Term	5.00	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	
3	Bank Guarantee	Short Term	3.50	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	[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

Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
Cash Credit	-	-	-	5.00	[ICRA]BB (Stable)
Letter of Credit	-	-	-	5.00	[ICRA]A4+
Bank Guarantee	-	-	-	3.50	[ICRA]A4+

Source: CIL

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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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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