

November 23, 2017

CCL International Limited Revised

Summary of rated instruments

Instrument*	Rated Amount (in crore)	Rating Action
Fund-based Limits	5.00	[ICRA]BB (Negative); Reaffirmed; outlook revised from Stable
Non-fund Based Limits	8.50	[ICRA]A4; Downgraded from [ICRA]A4+
Total	13.50	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]BB (pronounced ICRA double B) assigned to the Rs. 5.00-crore fund-based limits and downgraded the short-term rating to [ICRA]A4 (pronounced ICRA A four) from [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 revised to Negative from Stable.

Rationale

ICRA's short-term rating revision and change in the outlook on the long-term rating is driven by weaker than expected performance in Q2 FY2018 wherein the company registered revenues of Rs. 2.29 crore and net loss of Rs. 0.26 crore. The company has not been able to raise bills owing to regulatory changes which have also exerted pressure on its liquidity. ICRA also factors in the working capital intensive nature of the business which along with the ongoing liquidity stress resulted into high utilisation of working capital limits at ~93%. Though the company has monetised some of the non-core assets to support the cash flows, however the scheduled repayments coupled with working capital requirements as well as cash loss has kept the cash flows under stress.

While ICRA expects improvement in billing and profitability in H2 FY2018, CIL's ability to get the bills approved on a timely manner with efficient working capital management will remain the key rating sensitivity.

The ratings continue to draw comfort from CIL's experienced management and the company's pending order book of Rs. 114.13 crore as on September 30, 2017, which provides adequate revenue visibility for the short-to-medium term.

The previous rating rationale is available on the following link: [Click here](#)

Key rating drivers

Credit strengths

- **Experience of management in construction business** – In April 2011, CIL amalgamated with AAR Infrastructure Limited to facilitate diversification, as the two firms are promoted by the same management and are 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 a German technology called EvoCrete¹.
- **Order book 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 counter-party default risk as contracts from Government entities** – At present, most of CIL’s contracts are awarded by PWD, mitigating the counter-party default risks to some extent.

Credit weaknesses

- **Lower revenue in H1 FY2018 leads to cash losses, impacts coverage indicators** – The company reported operating loss of Rs. 0.86 crore in H1 FY2018 and cash losses of 0.57 crore, resulting in deteriorated profit margin and weak coverage-indicators owing to decline in revenues and increased input costs.
- **Operations largely restricted to Eastern India; exposure to regional-concentration and sectoral-concentration risks** – Exposure to risks associated with regional concentration and weather seasonality as most of the order book as well as projects in pipeline are from the eastern parts of India wherein the work flow remains slow during rainy season. Given that most of the company’s work comprises road construction, it remains exposed to sector-concentration risk.
- **Exposure to raw material price risk** – Absence of raw material price escalation in construction contracts exposes the company’s profitability to volatility in raw 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

CIL was originally incorporated in 1991 as Gupta Cements Private Limited. The company was converted into a public limited company and had its name changed to Chirawa Cements Limited in 1995. It was renamed CCL International Limited in 2008. The company is managed by Mr. Akash Gupta. CIL traded in steel and different types of fabric till FY2015. This apart, the company amalgamated with AAR Infrastructure Limited in 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 compared with a net profit of Rs. 0.85 crore on an operating income of Rs. 78.61 crore in the previous year. For H1 FY2018, CIL reported net loss of Rs. 1.44 crore on an OI of Rs. 10.83 crore compared with a net profit of Rs. 5.66 crore on an operating income of Rs. 33.51 crore for the corresponding period in the previous year.

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.

Key financial indicators

Particulars	FY2015	FY2016	FY2017	H1 FY2018
Operating Income (Rs. crore)	94.34	78.61	65.40	10.83
PAT (Rs. crore)	1.03	0.85	2.96	-1.44
OPBDIT/ OI (%)	3.73%	4.79%	0.35%	-7.91%
RoCE (%)	5.90%	5.90%	8.10%	-5.18%
Total Debt/ TNW (times)	0.28	0.32	0.32	0.32
Total Debt/ OPBDIT (times)	2.95	3.25	56.95	-7.43
Interest Coverage (times)	2.68	2.31	0.16	-1.23
NWC/ OI (%)	13.36%	26.92%	32.67%	87.32%

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress); NWC: Net Working Capital

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 FY2018	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
				November 2017	August 2017	January 2017	September 2015	July 2014
1	Cash Credit	Long Term	5.00	[ICRA]BB (Negative)	[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+	[ICRA]A4+
3	Bank Guarantee	Short Term	3.50	[ICRA]A4	[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 (Negative)
Letter of Credit	-	-	-	5.00	[ICRA]A4
Bank Guarantee	-	-	-	3.50	[ICRA]A4

Source: CIL

Contact Details

Analyst Contacts

Sabyasachi Majumdar

+0124-4545 304

sabyasachi@icraindia.com

Amit Arora

+0124-4545 318

amita@icraindia.com

Manish Ballabh

+0124-4545 812

manish.ballabh@icraindia.com

Prerna Aggarwal

+0124- 4545 891

prerna.aggarwal@icraindia.com

Relationship Contact

Jayanta Chatterjee

+91 80 4332 6401

jayantac@icraindia.com

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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**Registered Office****ICRA Limited**

1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office**Mr. Vivek Mathur**

Mobile: +91 9871221122

Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

3rd Floor, Electric Mansion
Appasaheb Marathe Marg, Prabhadevi
Mumbai—400025,
Board : +91-22-61796300; Fax: +91-22-24331390

Kolkata**Mr. Jayanta Roy**

Mobile: +91 9903394664

Email: jayanta@icraindia.com

A-10 & 11, 3rd Floor, FMC Fortuna
234/3A, A.J.C. Bose Road
Kolkata—700020
Tel +91-33-22876617/8839 22800008/22831411,
Fax +91-33-22870728

Chennai**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

5th Floor, Karumuttu Centre
634 Anna Salai, Nandanam
Chennai—600035
Tel: +91-44-45964300; Fax: +91-44 24343663

Bangalore**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

'The Millenia'
Tower B, Unit No. 1004, 10th Floor, Level 2 12-14, 1 & 2,
Murphy Road, Bangalore 560 008
Tel: +91-80-43326400; Fax: +91-80-43326409

Ahmedabad**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

907 & 908 Sakar -II, Ellisbridge,
Ahmedabad- 380006
Tel: +91-79-26585049, 26585494, 26584924; Fax:
+91-79-25569231

Pune**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range
Hills Road, Shivajinagar, Pune-411 020
Tel: + 91-20- 6606 9999; Fax: +91-20-25561231

Hyderabad**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj
Bhavan Road, Hyderabad—500083
Tel:- +91-40-40676500