

June 24, 2019

## Chevrox Constructions Pvt. Ltd.: Ratings upgraded to [ICRA]BBB-(Stable)/[ICRA]A3; rated amount enhanced

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based limits – CC/Others	10.00**	15.00**	[ICRA]BBB-(Stable); upgraded from [ICRA]BB+(Stable)
Non-fund based limits – BG/LC	20.00	20.00	[ICRA]A3; upgraded from [ICRA]A4+
Unallocated limits	0.00	95.00	[ICRA]BBB-(Stable)/A3; upgraded from [ICRA]BB+(Stable)/A4+
<b>Total</b>	<b>30.00</b>	<b>130.00</b>	

\*Instrument details are provided in Annexure-1

\*\* Includes Rs. 10 crore interchangeability with non-fund based limits

### Rationale

The rating upgrade takes into account the significant increase in the scale of operations of Chevrox Constructions Pvt. Ltd. (Chevrox) in FY2019 on the back of increased execution during the year and higher profit margins resulting in improved net worth, gearing and coverage indicators. The rating continues to favourably factor in the track record of Chevrox's management team in the civil construction business and its strong business linkage to its sister concern, Iron Triangle Limited (ITL; rated [ICRA]A(Stable)/A1). ICRA notes that Mr. Kishor Viramgama, one of the promoters of ITL and a veteran of the construction industry in Gujarat, is the chairman of both Chevrox and ITL. Further, ITL has been subcontracting some of its orders to Chevrox. The rating also takes into account the Special Category-II (Building) registration of the company with the State Government of Gujarat, along with its strategic tie-ups with several leading construction companies in the state, which aids it in sourcing engineering, procurement and construction (EPC) sub-contracts. ICRA also notes that the company's outstanding order book position of ~Rs. 444 crore (Orderbook/OI of 1.9 times) as of March 2019 provides revenue visibility for the near-to-medium-term. The ratings also take into consideration Chevrox's expansion of machinery/equipment fleet over FY2018 and FY2019, which will support the growth of its operations, going forward.

The rating is, however, constrained by the moderate scale and limited track record of Chevrox's operations as well as the high concentration of the order book on a few orders with the two large recently secured sub-contracts in Chhattisgarh accounting for 66% of the orderbook. The rating further takes into account the execution and funding risks associated with the projects in the initial stages of execution that account for about 85% of the order book as of March 2019. ICRA also notes the vulnerability of the company's profitability to fluctuations in input prices of raw materials and the criticality of timely completion and delivery as per contract terms to avoid liquidated damage (LD) claims. The rating is also constrained by the intense competition in the road and building construction sector.

### Outlook: Stable

ICRA expects Chevrox to continue to benefit from the extensive experience of its management team in the construction industry as well as to sustain its increased scale and register a marginal growth in its revenue in FY2020, supported by the execution of the large projects secured in Chhattisgarh. The outlook may be revised to Positive if the net worth of the company improves significantly in line with its growing revenue or if it is able to source more project to diversify its order

book. The outlook may be revised to Negative if there is a significant weakening of the financial risk profile due to a drop in scale, sizeable debt-funded capital expenditure or any large LD claims.

## Key rating drivers

### Credit strengths

**Extensive experience of promoters and management team in civil construction sector** - Mr. Kishor Viramgama, a veteran of the construction industry in Gujarat, is the chairman of Chevrox. Also, all the three founding promoters of Chevrox have extensive industry experience. The promoter's long track record, coupled with a team of experienced professionals, ensures adequate in-house project planning and execution capabilities. The company has adequate infrastructure in terms of construction machinery and skilled manpower and has been awarded the 'Special Category-II (Building)' certification by the State Government of Gujarat.

**Significant improvement in overall financial profile in FY2019** - Chevrox reported an operating income of Rs. 242.9 crore for FY2019, which is a 95% growth over the previous year's operating income. Coupled with improved operating and net margins in FY2019, this resulted in higher than expected internal accruals. Consequently, the net worth of the company increased to Rs. 30.5 crore as on March 2019 from Rs. 10.2 crore as on March 2018, which resulted in significant improvement in the overall capital structure. Also, the coverage indicators for Chevrox improved in FY2019 with interest coverage of 9.4 times in FY2019 (against 5.1 times in FY2018) and Debt/OPBDITA of 0.9 time in FY2019 (against 2.3 times in FY2018).

**Strong business linkages to ITL and strategic tie-ups with other construction majors aid in sourcing new EPC contracts** - Chevrox has strong business linkage to ITL, which is co-promoted by Mr. Kishor Viramgama. Majority of the work undertaken by the company in FY2018 and FY2019 was sub-contracted to it by ITL. Apart from this, Chevrox has strategic tie-ups with several other construction majors and has worked as EPC sub-contractors for these companies in the past.

**Outstanding order book and projects in pipeline provide revenue visibility for the medium term** - As of March 31, 2019, the company had 10 ongoing projects including the two road upgradation projects secured in Chhattisgarh in March 2019 (for which letter of award was received on April 2, 2019). The total outstanding order book size of Chevrox was Rs. 444 crore as of March 31, 2019, providing revenue visibility for the next 1-2 years. Additionally, the company has bid for other projects, the results of which are awaited. Securing new projects will be key for maintaining the growth momentum.

### Credit challenges

**Moderate scale and limited track record of operations** - Though constituted as a private limited company in 2010, Chevrox still has a limited track record of operations with the company starting to execute more and larger value projects only over the last three years. Given this short operational track record and the modest net worth of Rs. 30.5 crore as of March 31, 2019, Chevrox has only limited eligibility to bid for large value projects and has to rely on undertaking projects sub-contracted to it by ITL and other construction majors. The above factors, along with limited fleet and bank facilities required for bidding (bank guarantees), constrain the company's scale of operations and its ability to bid for large projects.

**Execution risks for all upcoming projects** - In FY2019, Chevrox secured two new EPC sub-contract from Montecarlo for road upgradation in Chhattisgarh at a total contract value of Rs. 295 crore. Apart from these, it also secured seven other smaller value road and building construction projects during the year by bidding directly. As a result, the outstanding order

book of Chevrox increased to Rs. 444 crore as of March 2019, 85% of which is constituted by projects where less than 10% of the total work was completed and are prone to higher execution risks.

**Project concentration risk** - The order book of Chevrox stood at Rs. 444 crore with 10 ongoing projects as on March 31, 2019. However, about 66% (i.e., Rs. 295 crore) of the total order book value was constituted of two road sub-contract projects secured in Chhattisgarh, exposing the company to concentration risk.

**Vulnerability of profitability to price fluctuation and counter-party risks** - Chevrox's profitability remains vulnerable to fluctuations in input prices for the contracts that it secures on its own that does not incorporate a price escalation clause. However, given that most of its projects are currently sub-contracted to it by ITL and other construction majors, Chevrox is protected from the price fluctuation risk to a large extent. In addition, it is exposed to counter-party risk from the small percentage of projects that Chevrox secures on its own from local governments and other corporate clients.

## Liquidity position

As on March 31, 2019, Chevrox's liquidity position remained moderate with cash and bank balance of Rs. 7.7 crore, a large part of which remained encumbered. The company had also utilised fund-based facilities of Rs. 9.9 crore (out of a sanctioned facility of Rs. 10.0 crore) as on March 31, 2019 to fund the increased working capital requirement. The liquidity profile is supported by the unsecured loan from the promoters of Rs. 14.5 crore (as on March 31, 2019). The company has plans to enhance its working capital facilities to support its liquidity position, going forward.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Construction Entities</a>
Parent/Group Support	Not applicable
Consolidation / Standalone	The ratings are based on the standalone financial profile of the company

## About the company

Chevrox was constituted as a private limited company in 2010 by Mr. Mit Viramgama, Mr. Subhash Patel, and Mr. Hitesh Chaniyara in Rajkot (Gujarat). Chevrox is primarily engaged as an EPC sub-contractor for various building and road projects in Gujarat, Bihar and Chhattisgarh. The company also undertakes construction work for bridges, flyovers, roads, water and wastewater treatment plants, electrical sub-stations, industrial projects, pipelines, institutional and high-end real estate. Chevrox enjoys strong business linkages with the established construction company, ITL. Mr. Kishor Viramgama, who is a co-promoter of ITL is also the chairman of Chevrox, as well as the father of Mr. Mit Viramgama, one of the other promoters of Chevrox. Most of the projects undertaken by Chevrox currently is sub-contracted to it by ITL as well as by Florentina Realty LLP, a related entity from the real estate sector. The end-clients for the projects executed by Chevrox include GIFT City, Pipavav Port, Chhattisgarh Road Development Corporation, Gujarat Water and Sanitation Board, Gujarat Urban Development Company, etc.

In FY2019, as per the provisional financials, the company reported a net profit of Rs. 20.3 crore on an operating income of Rs. 242.9 crore, as compared to a net profit of Rs. 5.8 crore on an operating income of Rs. 124.8 crore in the previous year.

## Key financial indicators (Provisional)

	FY2018	FY2019
Operating Income (Rs. crore)	124.8	242.9
PAT (Rs. crore)	5.8	20.3
OPBDIT/ OI (%)	11.3%	15.1%
RoCE (%)	42.2%	59.8%
Total Debt/ TNW (times)	3.2	1.1
Total Debt/ OPBDIT (times)	2.3	0.9
Interest coverage (times)	5.1	9.4
NWC/ OI (%)	8.5%	13.5%

Note: FY2018 financials are audited

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for last three years

	Current Rating (FY2020)				Chronology of Rating History for the Past 3 Years			
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating June 2019	Date & Rating in FY2019 November 2018	Date & Rating in FY2018	Date & Rating in FY2017
1	Fund Based limits – CC/Others	Long Term	15.00*	-	[ICRA]BBB-(Stable)	[ICRA]BB+(Stable)	-	-
2	Non Fund Based limits – BG/LC	Short Term	20.00	-	[ICRA]A3	[ICRA]A4+	-	-
3	Unallocated limits	Long Term/ Short Term	95.00	-	[ICRA]BBB-(Stable)/A3	-	-	-

\* Includes Rs. 10 crore interchangeability with non-fund based limits

## 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](http://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	Fund based limits	-	-	-	15.00*	[ICRA]BBB- (Stable)
NA	Non-fund based limits	-	-	-	20.00	[ICRA]A3
NA	Unallocated limits	-	-	-	95.00	[ICRA]BBB-(Stable)/A3

\* Includes Rs. 10 crore interchangeability with non-fund based limits

Source: Chevrox Constructions Pvt. Ltd.

### Annexure-2: List of entities considered for consolidated analysis: Not applicable

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