Rating Rationale **5 Oct 2020**

CDS Infra Projects Ltd. (erstwhile CDS Infra Projects Pvt. Ltd.)

Brickwork Ratings reaffirms the ratings for the Bank Loan Facilities of CDS Infra Projects Ltd. (erstwhile CDS Infra Projects Pvt. Ltd.).

Particulars

Facility	Amount (₹ Crs)		Tenure	Rating*	
	Previous	Present		Previous (July, 2019)	Present
Fund based	45.00	**60.00**	**Long Term**	BWR A-(Stable)	**BWR A-(Stable)** *Reaffirmation*
Non Fund Based	600.00	**725.00**	**Long Term/ Short Term**	BWR A-(Stable)/A2+	**BWR A-(Stable)/A2+** *Reaffirmation*
Total	645.00	**785.00**	**Rupees Seven Hundred Eighty Five Crores Only**		

*Please refer to BWR website www.brickworkratings.com/ for the definition of the ratings

** Details of the bank loan facility are provided in Annexure-I

RATING ACTION / OUTLOOK

The rating draws strength from the experience of the promoters and management team; established market position and track record of CDS Infra Projects Ltd (CIPL or the company) in executing roads/highway projects; and a comfortable financial risk profile marked by healthy revenue visibility over the medium term, backed by an adequate unexecuted order book position, strong capital structure, comfortable debt protection indicators, adequate liquidity position and sustained profitability margins.

The ratings, however, remain constrained on account of the risk associated with tender-based businesses, project execution risk and cyclicality in the construction industry.

Brickwork Ratings (BWR) believes the company's business risk profile will be maintained over the medium term. The Stable outlook indicates a low likelihood of a rating change over the medium term. The rating outlook may be revised to Positive in case revenues and the profit show a sustained improvement. The rating outlook may be revised to Negative if revenues go down, and profit margins show lower-than-expected figures.

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED

NA

KEY RATING DRIVERS

Credit Strengths:

Experienced promoters and successful track record of project execution:

CIPL (erstwhile CDS Infra Projects Pvt Ltd), based in New Delhi, was incorporated in 2004 to carry out engineering, procurement and construction (EPC) activities primarily in the country's roads and highways sector. Over the years, the company has successfully executed various road projects of the NHAI and state government agencies across states such as Punjab, Haryana, Uttar Pradesh, Uttarakhand and Madhya Pradesh. It is authorised to bid and execute single projects of value upto Rs. 1230 Cr. Promoter and Managing Director Mr. Sandeep Chandra has more than two decades of experience in the infrastructure sector.

Comfortable financial risk profile:

The company had an unexecuted order book position of Rs. 2284 Cr as on 31 August 2020, which is 2.65 times its FY 20 revenue. These projects are to be completed during FY 21 and FY 22, giving sufficient revenue visibility in the short to medium term. until August 2020, the company booked Rs. 348 Cr of revenue, and from unexecuted projects, it is targeting another Rs. 800 Cr of revenue in the remaining 7 months of FY 21. Every month the company selectively bids for various projects put forth by agencies such as the NHAI and state governments after evaluating important factors such as profit margins and the return on capital; this has resulted in a consistent improvement in these indicators over the last three years. It reported a TNW of Rs. 253.68 Cr as on 31 March 2020, with a gearing of 0.43x. The TNW and gearing during end-FY 19 were Rs. 201.22 and 0.48x, respectively. The TOL/TNW was also comfortable, at 1.20x, as on 31 March 2020, indicating low reliance of the company on external funds for undertaking its normal course of business. The ISCR and DSCR during end-FY 20 were at 3.52 and 1.74, respectively, 3.02 and 1.76, respectively, during end-FY 19, indicating comfortable debt servicing indicators over the years.

Credit Risks:

Risks associated with tender-based business:

The company bids for projects from the NHAI and various state governments through tenders wherein bids are invited from all eligible and interested parties. Given the presence of a large number of players in the segment, successfully bidding for these projects becomes a challenge. The company's strategy is to successfully bid for new projects of a similar or higher value to replace completed projects and maintain sufficient revenue visibility in the short to medium term.

Project execution risk

Road construction projects face various project execution risks emanating from site conditions, labour issues, natural disasters and issues with suppliers, among others.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

For arriving at its ratings, BWR has considered standalone audited financials upto FY 20, projected financials for the next two fiscals and unexecuted order positions at the end of August

2020. BWR has applied its rating methodology as detailed in the Rating Criteria. (hyperlinks provided at the end of this rationale)

RATING SENSITIVITIES

Positive factors:

- Continuing to maintain outstanding order book position at current or higher level, giving adequate revenue visibility over short to medium term
- Growth in revenue and an improvement in operating and net margins

Negative factors:

- Low outstanding order visibility
- A fall in revenue, and declining operating and net margins
- Inefficient working capital management, leading to stressed liquidity

LIQUIDITY INDICATORS : Adequate

CIPL reported bank deposits of Rs. 106.26 Crs as on 31 March 2020 in addition to cash and cash equivalents of Rs. 7.68 Crs. Average working capital limit utilisation was in the range of 75-80% over the past six months, indicating an adequate liquidity position. Furthermore, with increased revenue and profits, the company's cash accruals also improved during FY 20 to Rs. 61.94 Cr from Rs. 41.79 Cr in FY 19. The net cash accrual is expected at Rs 83 Cr in FY 21 and Rs. 108 Cr in FY 22; it is expected to provide sufficient cover for the repayment obligation of Rs 33.85 Cr and Rs 20 Cr in FY 21 and FY 22, respectively.

COMPANY's / FIRM's PROFILE

CDS Infra Projects Ltd (CIPL, erstwhile CDS Infra Projects Pvt Ltd) was incorporated in 2004 to carry out EPC activities primarily in the country's roads and highways sector. CIPL was initially set-up as a 100% subsidiary of JSC Centrodorstroy, a Russian company, involved in the construction and infrastructure sector. The company was eventually taken over by its present promoters, the Chandra family. Mr. Sandeep Chandra has been the company's managing director since its inception and took over its shareholding following the exit of JSC Centrodorstroy in 2009. The promoters had arrived at an understanding that they will continue to use the Centrodorstroy name for a few more years so that the company could establish a track record.

CIPL has a non-current investment of Rs. 20.76 Cr in M/s Vee Vee Properties Pvt Ltd, which owns an industrial plot at Udyog Vihar, Gurugram. It is constructing its corporate office tower at the said place.

KEY FINANCIAL INDICATORS

Key Financial Indicators	Units	FY 19	FY 20
Result Type		**Audited**	**Audited**
Operating Income	Rs. Cr	790.32	862.72
OPBDIT	Rs. Cr	72.15	90.14
PAT	Rs. Cr	31.66	48.51
TNW	Rs. Cr	201.22	253.68
Total Debt/TNW	Times	0.48	0.43
ISCR	Times	3.02	3.52

NON-COOPERATION WITH PREVIOUS CREDIT RATING AGENCY *(IF ANY):* NA

RATING HISTORY FOR THE PREVIOUS THREE YEARS [including withdrawal and suspended]

Instrument / Facilities	Current Rating (2020)			Rating History				
	Tenure (Long Term/ Short Term)	Amount (Rs. Crs.)	Rating	29 Jul 2019	19 Jul 2019	16 Jan 2019	2018	2017
Fund Based								
Cash Credit	Long Term	60.00	BWR A-(Stable)	BWR A-(Stable)	BWR A-(Stable)	BWR BBB+(Stable) (Not accepted)	NA	NA
Non-fund Based								
BG	Long Term/Short Term	725.00	BWR A-(Stable) /A2+	BWR A-(Stable)/ A2+	BWR A-(Stable)/ A2+	BWR BBB+(Stable)/ A2+ (Not accepted)	NA	NA
Total		**785.00**	**Rupees Seven Hundred Eighty Five Crores Only**					

COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria
https://www.brickworkratings.com/download/Criteria-Infrastructure.pdf

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ANNEXURE I

Details of Bank Loan Facilities rated by BWR

Sl. No.	Name of the Bank	Type of Facilities	Long Term (Rs.Crs.)	Short Term (Rs.Crs.)	Total (Rs.Crs.)
1.	Union Bank of India	Cash Credit	35.00	Nil	35.00
2.		Bank Guarantee	Nil	395.00	395.00
3.	Indian Overseas Bank	Bank Guarantee	Nil	90.00	90.00
4.	State Bank of India	Cash Credit	15.00	Nil	15.00
5.		Bank Guarantee	Nil	60.00	60.00
6.	Ratnakar Bank Limited	Bank Guarantee	Nil	35.00	35.00
7.	IndusInd Bank	Cash Credit	5.00	Nil	5.00
8.		Bank Guarantee	Nil	75.00	75.00
9.	Proposed Limits	Cash Credit	5.00	Nil	5.00
10.		Bank Guarantee	Nil	70.00	70.00
Rupees Seven Hundred Eighty Five Crores Only					**785.00**

ANNEXURE III

List of entities consolidated

Name of Entity	% ownership	Extent of consolidation	Rationale for consolidation
NA	NA	NA	NA

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