

Rating Rationale

Chauhan Construction

11 May 2018

Brickwork Ratings assigns BWR BB-/ A4 for the Bank Loan Facilities of Rs. 8.50 Crs of Chauhan Construction.

Particulars

Facility #	Amount (Rs. Crs)	Tenure	Rating [^]
<u>Fund Based</u>			
ODIP	4.75	Long Term	BWR BB- (Pronounced BWR Double B Minus) Outlook : Stable Assigned
<u>Non Fund Based</u>			
Bank Guarantee	3.75	Short Term	BWR A4 (Pronounced BWR A Four) Assigned
Total	8.50	(INR Eight Crores and Fifty Lakhs only)	

[^] Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

Annexure-I provides details of bank facilities

Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has principally relied upon the audited financials upto FY17, publicly available information and information/clarifications provided by the management.

The ratings draw strength from the experienced promoters, established track record of the firm and moderate order book position. The ratings are, however constrained by the modest scale of operations, geographic concentration risk, exposure to risks arising from tender based nature of operations and presence in highly fragmented and competitive construction industry.

Going forward, the firm's ability to increase its scale of operations, ensure timely completion of its projects, strengthen its credit profile and manage its working capital efficiently would be the key rating sensitivities.



Analytical approach

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

Key Rating drivers

Experienced Management and established track record of the firm

The Partners' business experience of around three decades in the civil construction industry and their financial backing is expected to benefit the firm. Chauhan Construction has been in civil construction business for around a decade and has a satisfactory track record of completion of road construction contracts.

Average financial risk profile

The capital structure of the firm marked by overall gearing was comfortable at 0.23 times as on 31st March 2017 and has improved from 0.26 times as on 31st March 2016 on account of increase in net worth. DSCR was 5.21 times and ISCR 3.05 times as on 31st March 2017.

Moderate scale of operations

Contract receipts, although growing, is moderate as reflected in the topline of Rs. 41.45 Crs in FY 17. The total operating income improved from Rs. 31.40 Crs in FY 16 to Rs. 41.45 Crs in FY 17 due to year on year increase in execution of work orders. The firm has orders on hand aggregating to Rs. 32.20 Crs, which are likely to be executed in the next 12-18 months. The majority of the orders are from Public Works Department, Rampur.

Tender based nature of operations

The firm receives its work orders from government organizations through tenders. As such, the ability of the promoters to bid successfully for the tenders and execute the same effectively are key for future growth.

Presence in a highly fragmented and competitive construction industry

The firm belongs to the intensely competitive construction industry wherein the presence of a large number of contractors results in aggressive bidding which exerts pressure on the margins. Furthermore, interest rate risk and delays in project due to environmental clearances are other external factors that affect the credit profile of the industry players.



Rating Outlook : Stable

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

About the Firm

Chauhan Construction is a partnership firm established in 2007 by Mr. Shankar Singh & Mr. Jitender Singh. The firm is a Class ‘A’ contractor registered with Public Works Department in Uttar Pradesh, Irrigation department, Rural engineering department and Class ‘B’ in Cane Development Council and is engaged in construction of roads for government organizations. The firm receives work orders from government organizations by participating in the tenders.

Financial Performance

The firm reported Contract receipts of Rs.41.45 Crs and net profit of Rs 2.51 Crs for FY 17 as against Contract receipts of Rs. 31.40 Crs and net profit of Rs. 1.91 Crs for FY 16. On a provisional basis, the company has achieved a turnover of around Rs. 25 Crs for FY18, mainly due to delay in receipts from some government projects. Partners’ capital was Rs. 7.35 Crores and Total debt was Rs. 1.70 Crs as on March 31 2017. Current ratio was 1.44 times as on March 31 2017.

Rating History for the last three years:

Facility	Current Rating (May 2018)			Rating History		
	Type	Amount (Rs. Crs)	Rating	2017	2016	2015
Fund Based			BWR BB- (Outlook: Stable) Assigned	Not Rated	Not Rated	Not Rated
ODIP	Long Term	4.75				
Non Fund Based						
Bank Guarantee	Short Term	3.75	BWR A4 Assigned			
	Total :	8.50	INR Eight Crores and Fifty Lakhs only			

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

Any other information: Not applicable

Hyperlink/Reference to applicable Criteria:

- [General Criteria](#)
- [Infrastructure Sector](#)
- [Approach to Financial Ratios](#)
- [Short Term Debt](#)

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Annexure I

Details of Rated Bank Facilities – Punjab National Bank, Dhampur, Uttar Pradesh

Facilities	Rated Amount (Rs Crs)
ODIP	4.75
Bank Guarantee	3.75
Total	8.50

Annexure II

Key Financial Indicators

Particulars	31st March 2016 Audited	31st March 2017 Audited
Contract Receipt (Rs. Cr)	31.40	41.45
EBITDA (Rs. Cr)	1.76	1.67
PAT (Rs. Cr)	1.91	2.51
Partner's capital (Rs Cr)	5.06	7.35
Total Debt: TNW (Times)	0.26	0.23
Current Ratio (Times)	1.51	1.44



For print and digital media

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Note on complexity levels of the rated instrument:

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, has also been accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a Nationalized Bank, as its promoter and strategic partner.

BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Guwahati, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations. BWR has rated debt instruments/bonds/bank loans, securitized paper of over ₹ 9,30,000 Cr. In addition, BWR has rated about 5000 MSMEs. Also, Fixed Deposits and Commercial Papers etc. worth over ₹19,700 Cr have been rated. Brickwork has a major presence in rating of nearly 100 cities.

DISCLAIMER

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