May 8, 2020

Bondada Engineering Private Limited: Ratings reaffirmed

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based – Cash credit	14.50	31.00	[ICRA]BBB (Stable); Reaffirmed
Fund based – Term loan	4.21	2.49	[ICRA]BBB (Stable); Reaffirmed
Non Fund based	5.00	10.00	[ICRA]A3+; Reaffirmed
Unallocated	1.29	0.51	[ICRA]BBB (Stable)/ [ICRA]A3+; Reaffirmed
Total	**25.00**	**44.00**	

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation of the ratings factors in Bondada Engineering Private Limited's (BEPL) established track record in design, installation and operation and maintenance of telecom towers and optical fibre cable (OFC) lines for the last eight years. The ratings also consider the diversified revenue profile of BEPL with presence in telecom services, tower manufacturing, engineering, procurement and construction (EPC) of solar power plants, unplasticised polyvinyl chloride (uPVC) windows/doors and aerated autoclaved concrete (AAC) block manufacturing. The ratings also consider a strong increase in revenues at a CAGR of 61% to Rs. 223.83 crore in FY2019 and an expected revenue of Rs. 250 crore in FY2020 on account of diversification. The company ventured into manufacturing of uPVC in FY2016, AAC in FY2017, tower manufacturing in FY2019 and solar EPC in FY2020. Further, the revenue profile of the company is expected to change in FY2021 with stable operations and maintenance (O&M) revenues accounting for the major portion of the revenues as BEPL had received long-term orders for O&M of tower infrastructure in Maharashtra circle for Reliance Jio (RJio) in February 2020 and OFC network in South India for Tata Communications Transformation Services Ltd. (TCTSL) in August 2019.

The ratings, however, are constrained by moderate operating margins at 8.9% in 9M FY2020, which declined from 13.1% in FY2017 due to an increase in share of revenues from lower-margin tower manufacturing and solar EPC. The working capital intensity stood at a moderate 28% in 9M FY2020 with significant portion of working capital requirements funded by creditors and working capital borrowings, which resulted in TOL/TNW at 2.59 times as on December 31, 2019. Despite high average utilisation of working capital limits in the past 15 months, the liquidity profile is expected to improve with monthly receipt of payments for the O&M services provided to RJio and TCTSL. The debt coverage indicators are comfortable with interest coverage of 7.05 times, NCA/TD at 30%, and TD/OPBITDA at 2.13 times for 9M FY2020. Although the customer concentration risk is high with RJio contributing the major portion to the revenues in the past 5 years, established relationship and repeat orders from RJio mitigate the risk to an extent. Further, the customer concentration risk is expected to reduce with addition of new customers such as TCTSL and KPI Global Infrastructure Limited in FY2020.

Key rating drivers and their description

Credit strengths

Established track record of BEPL in the telecom industry – Incorporated in 2012, BEPL is involved in design and erection of telecom towers and also provides O&M services to telecom companies. The major customers include reputed companies like RJio, Ericsson India Pvt. Ltd, Tata Communications Transformation Services Ltd., Indus Towers Limited, ATC Telecom Infrastructure Private Limited, Sterlite Technologies Limited etc.

Diversified business profile – BEPL started with design and EPC works of telecom towers in 2012 and later started providing O&M services to Telecom Service Providers (TSP). BEPL has diversified its business profile over the years and has presence in design, erection and maintenance of telecom towers, uPVC windows/ doors and AAC blocks manufacturing. Further, the company ventured into EPC of solar power plants in FY2020 and reported revenues of Rs. 21.83 crore in 11M FY2020 from the segment.

Healthy revenue growth over the last six years – The operating income of the company increased to Rs. 223.83 crore in FY2019 from Rs. 20.41 crore in FY2014, primarily driven by diversification into uPVC windows/doors manufacturing in FY2016, AAC blocks in FY2017 and tower supplies in FY2019, along with addition of new customers and circles in the telecom O&M segment. Further, the company has achieved revenues of Rs. 214.47 crore in 11M FY2020 and is expected to achieve revenues of over Rs. 250.00 crore in FY2020 as the company ventured into solar EPC in FY2020. The revenues are expected to increase in FY2021 on the back of healthy order book for providing long-term O&M services to RJio and TCTSL. The order book stood at Rs. 214.87 crore as on February 29, 2020, providing medium-term revenue visibility.

Credit challenges

Decline in operating margins in 9M FY2020 – The operating margins of the company declined to 8.9% in 9M FY2020 from 13.1% in FY2017 because of an increase in share of lower-margin businesses to the overall revenues in the past two years. Further, presence in the highly fragmented telecom industry constrains the profitability margins of the company. Although the operating margins declined in the past two years, the return on capital employed (ROCE) has remained at healthy levels with ROCE at 38.4% in FY2019 and 27.5% in 9M FY2020 as the tower manufacturing operations are asset light with the company taking a tower manufacturing facility under operating lease.

Moderate working capital intensity – The working capital intensity remained moderate at 28% in 9M FY2020 owing to high debtor and inventory days. The debtor days were high at 99 as on December 31, 2019 owing to significant billing in Q3 FY2020. A credit period of 30-90 days was offered to its key customers. The inventory is higher on account of high work in progress inventory for solar EPC segment and telecom O&M services. However, the liquidity position of the company is expected to improve in the near term because of monthly receipt of payments for the O&M services provided to RJio and TCTSL, which together accounted for Rs. 12 crore of billing from April 2020.

Moderate financial risk profile – The financial risk profile was moderate with gearing at 1.18 times and TOL/TNW at 2.59 times as on December 31, 2019 owing to moderate net worth position and high creditors. The total debt as on December 31, 2019 stood at Rs. 44.05 crore, which includes Rs. 7.86 crore interest free unsecured loans from Directors, Rs. 31.16 crore cash credit utilisation and Rs. 5.04 crore term loans. The debt coverage indicators were comfortable with interest coverage of 7.05 times, NCA/TD at 30%, and TD/OPBITDA at 2.13 times in 9M FY2020.

High customer concentration – The company derived more than 50% of its revenues from RJIO in the last three years. The company provides telecom tower erection and maintenance, and OFC laying services to RJIO. However, the customer concentration is expected to reduce with addition of new customers over the medium term. Also, reputed customer profile mitigates the customer concentration risk to an extent.

Rating sensitivities

Positive triggers – ICRA could upgrade BEPL's ratings if the company demonstrates a healthy growth in order book addition and execution along with an improvement in the profitability margins. Specific credit metric that could lead to an upgrade of BEPL's rating include TOL/TNW below 1.5 times on a sustained basis.

Negative triggers –Pressure on BEPL's ratings could arise if there is a decline in the order book addition and execution or a decline in profitability on a sustained basis. Prolonged impact of the Covid-19 outbreak would hurt the financial performance and liquidity position of the company. Specific credit metrics that could lead to a downgrade of BEPL's ratings includes interest coverage below 3.50 times.

Liquidity Position: Adequate

The company's liquidity profile is **adequate** with moderate average working capital limit utilisation for the past 15 months that ended in April 2020. Further, cash flows from the business are likely to be sufficient to meet the long-term debt repayment obligations over the medium term.

Analytical approach

Analytical Approach	**Comments**
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation / Standalone	Standalone

About the company

BEPL was incorporated in 2012 by Mr. Ragavendar Rao and Mr. B Satyanarayana for carrying out design and EPC works of telecom towers and providing O&M services to telecom service providers (TSP). In FY2016, the company diversified into erection of transmission lines and manufacturing of uPVC windows/ doors. The manufacturing plant is situated in Gajuwaka, Vishakhapatnam and has a production capacity of 3,60,000 square feet per annum. Later in June 2017, the company has set up an AAC blocks manufacturing plant in Jaggayyapetta, Andhra Pradesh with an annual production capacity of 1,00,000 cubic metres, which was increased to 1,50,000 cubic metres in October 2018. The AAC blocks are sold under the brand Smartbrix. In April 2018, BEPL ventured into tower manufacturing through a leased unit located in Rampally, Medchal district of Telangana. The production capacity of the tower fabrication division and the galvanising division is 12,000 MT/annum. The company has executed telecom and power projects across 16 states in India. In FY2020, the company also ventured into solar EPC, where BEPL undertakes system integration services to build solar power projects (rooftop and ground mounted).

Key financial indicators

	FY2018	**FY2019**	**9M FY2020***
Operating Income (Rs. crore)	101.90	223.83	174.00
PAT (Rs. crore)	5.20	11.39	8.47
OPBDIT/ OI (%)	11.5%	8.6%	8.9%
RoCE (%)	31.2%	38.4%	27.5%
Total Debt/ TNW (times)	1.07	0.91	1.18
Total Debt/ OPBDIT (times)	1.57	1.35	2.13
Interest coverage (times)	7.91	12.41	7.05

*Source: BEPL, *Provisional*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Type	Current Rating (FY2021)			Chronology of Rating History for the past 3 years		
			Amount Rated (Rs. crore)	Amount Outstanding* (Rs Crore)	Date & Rating May 8, 2020	Date & Rating in FY2019 January 3, 2019	Date & Rating in FY2018 -	Date & Rating in FY2017 -
1	Cash credit	Long Term	31.00	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-	-
2	Term loan	Long Term	2.49	2.49	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-	-
3	Non Fund based	Short Term	10.00	-	[ICRA]A3+	[ICRA]A3+	-	-
4	Unallocated	Long term/short term	0.51	-	[ICRA]BBB (Stable)/ [ICRA]A3+	[ICRA]BBB (Stable)/ [ICRA]A3+	-	-

**outstanding as on February 3, 2020*

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

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash credit	16/08/2019	NA	NA	31.00	[ICRA]BBB(Stable)
NA	Term loan	29/11/2018	NA	29/11/2022	2.49	[ICRA]BBB(Stable)
NA	Non Fund based	16/08/2019	NA	NA	10.00	[ICRA]A3+
NA	Unallocated	NA	NA	NA	0.51	[ICRA]BBB(Stable)/[ICRA]A3+

Source: BEPL

ANALYST CONTACTS

K. Ravichandran
+91 44 45964301
ravichandran@icraindia.com

R Srinivasan
+91 44 45964315
r.srinivasan@icraindia.com

Vinay Kumar G
+91 40 4067 6533
vinay.g@icraindia.com

Karan Gupta
+91 40 4067 6529
Karan.gupta@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@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.

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For more information, visit www.icra.in

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

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

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
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