

## Credit Perspective

January 2019

### RATING ACTION

Ratings assigned

Long-term Rating

[ICRA]BBB (Stable)

Short-term Rating

[ICRA]A3+

Total Limits Rated

Rs. 25.00crore

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### Rating Rationale

The assigned ratings favorably factors in Bondada Engineering Private Limited's (BEPL) demonstrated track record in design, installation and operation and maintenance of telecom towers and Optical Fibre Cable (OFC) lines for the last six years and diversified business profile with presence in telecom services, tower manufacturing, unplasticised polyvinyl chloride (uPVC) windows/doors and aerated autoclaved concrete (AAC) block manufacturing. The ratings also consider the strong growth in its revenues at a CAGR of 49% from Rs. 20.41 crore in FY2014 to Rs. 101.90 crore in FY2018 primarily driven by telecom tower works and improved capacity utilisation of AAC blocks; repeat orders from Reliance Jio Infocomm Ltd. (RJio) for telecom tower services and positive demand outlook for AAC blocks industry with increasing market adoption. The ratings, however, are constrained by high customer concentration with RJio contributing to more than 60% of total revenues in the last three years; moderate operating margins of 9.76% in H1 FY2019, which declined from 13.09% in FY2017 due to increased competition; and moderate financial risk profile with gearing at 1.12 times as on September 30, 2018 owing to debt-funded capex and working capital borrowings. The ratings are also constrained by high geographical concentration with 58% of the total revenues derived from Telangana and Andhra Pradesh in H1 FY2019 (vs 46% in FY2018); presence in a highly fragmented industry like telecom and transmission tower constraining its profitability margins; and high working capital requirements owing to moderate debtor and inventory levels. Further, the debt-funded working capital requirements are expected to constrain the improvement in coverage indicators in the medium term.

### Rating Outlook

The Stable outlook reflects ICRA belief that BEPL's scale of operations is expected to improve with diversification into tower manufacturing business while margins are likely to remain at H1 FY2019 levels. The outlook may be revised to Positive if there is a substantial growth in revenues along with improvement in margins and improved liquidity profile. The outlook may be revised to Negative if there is significant drop in operating margins, or stretch in the working capital cycle, weakening liquidity.

### Scenarios for Rating Upgrade

Healthy growth in the scale of operations and sustained improvement in operating margins, while managing working capital requirements, will be the key factors for a higher rating.

### Scenarios for Rating Downgrade

Downward pressure on the rating could emerge if the firm's operating margin falls or if it undertakes sizeable debt-funded capital expenditure.

## Key Rating Considerations

### Credit Strengths

- Qualified management team with established track record in design, installation and O&M of telecom towers and OFC lines for the last six years
- Diversified business profile with revenues from telecom towers, tower manufacturing, uPVC windows/doors and AAC blocks
- Strong growth in revenues at a CAGR of 49% from Rs. 20.41 crore in FY2014 to Rs. 101.90 crore in FY2018 primarily driven by improving capacity utilisation for AAC blocks and uPVC windows/doors along with increased O&M presence
- Repeat orders from Reliance Jio for design, O&M and TSP services; BEPL provides O&M services to over 9,600 telecom towers and 13,900 km long OFC across Telangana, Maharashtra and Karnataka primarily for RJio

### Credit Challenges

- High customer concentration with Reliance Jio contributing to more than 60% of total revenues for the last three years; further, the customer concentration risk is expected to remain high in the medium term with significant orders from RJio
- High geographical concentration with 58% of total revenues derived from Telangana and Andhra Pradesh in H1 FY2019
- Dip in operating margins to 9.76% in H1FY2019 from 13.09% in FY2017 owing to increased share of revenues from tower manufacturing where the margins are less than other verticals
- Moderate financial profile with gearing at 1.12 times as on September 30, 2018 owing to debt-funded capex and increased working capital loans
- High working capital utilisation at 97.62% for the last 12 months owing to high inventory and debtor days

### Company Profile

Bondada Engineering Private Ltd (BEPL) was incorporated in 2012 by Mr. Ragavendar Rao and Mr. B. Satyanarayana for carrying out design, erection and maintenance of telecom towers for telecom service providers (TSP). In FY2016, the company diversified into manufacturing of uPVC windows/doors. The manufacturing plant is situated in Gajuwaka, Vishakhapatnam and has a production capacity of 2,20,000 square feet per annum. Later in June 2016, the company has set up an AAC blocks manufacturing plant in Jaggayyapetta, Andhra Pradesh with annual production capacity of 1,00,000 cubic metre. BEPL has expanded the AAC blocks manufacturing capacity to 1,50,000 cubic metre in April 2018 at a capex of Rs. 3.00 crore. 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 is 1500 MT/month and that of the galvanising division is 2000 MT/month. The company has executed telecom projects across 16 states in India.

## BUSINESS RISK PROFILE

### Diversified business profile

BEPL has presence across telecom infrastructure services, manufacturing of telecom/transmission towers and construction materials such as uPVC windows/doors and AAC blocks. In telecom segment, the company performs EPC works of telecom towers and entering into O&M agreement with Telecom Service Providers (TSP). As on December 2018, the company is maintaining 11,000 telecom towers in Maharashtra, 9000 in Telangana, 13,000 km long optic fiber cable in Maharashtra and 8000 kms in Telangana. The company has an AAC blocks manufacturing facility in Jaggayyapetta, Andhra Pradesh with annual production capacity of 1,08,000 cubic meters and sold under the brand name "Smartbrix". The company also manufactures uPVC windows and doors which has lower thermal insulation resulting in minimum heat loss in winters and reduce heat gain in summers. The production capacity of uPVC manufacturing unit is 2,20,000 square feet per annum and its located in Gajuwaka, Vishakhapatnam. Around 52% of the revenues is from telecom projects and 32% is from tower supplies in H1FY2019.

### EXHIBIT 1: Segment-wise Sales Breakup

Value in Rs. crore	FY2015	FY2016	FY2017	FY2018	H1 FY2019
Telecom projects	39.78	53.84	55.13	72.77	45.50
Tower Supplies	0.00	0.00	0.00	0.00	27.89
Smartbrix	0.00	0.00	3.05	16.96	10.62
uPVC windows & doors	0.00	1.73	5.27	5.24	3.23
Power projects	0.79	1.41	8.06	6.93	0.00
<b>Total</b>	<b>40.57</b>	<b>56.98</b>	<b>71.51</b>	<b>101.90</b>	<b>87.24</b>

Source: BEPL

### Telecom segment revenues driven by O&M contracts and services rendered to TSPs

BEPL offers design and engineering services to TSPs and telecom equipment manufacturers in India. Under the design segment, BEPL is involved in design of new towers and reverse engineering evaluation of the existing towers, foundation design of ground-based and rooftop-based towers, evaluation of structural stability, soil testing and investigation, SERC/IIT approvals etc. For TSPs, the company provides services such as construction of towers, distributed generation (DG), shelter foundations, electrical works, fencing, base transceiver station (BTS), microwave equipment installation, optic fibre connection (OFC) and outside plant (OSP) construction works and other in-building solutions. The company also enters into O&M contracts with the clients for maintenance of tower, shelter, DG, BTS and microwave equipment. BEPL also provides 24x7 man support and comprehensive maintenance of access routes and patrolling.

### EXHIBIT 2: Telecom Segment Revenue Breakup

in Rs. Crore	FY2015	FY2016	FY2017	FY2018	H1 FY2019
Design	1.8	3.0	3.0	2.1	1.9
Telecom service providers	23.9	31.3	17.3	20.3	16.6
O&M	12.6	19.6	32.2	35.6	16.7
Any other	1.5	0.0	2.6	14.7	10.3
<b>Total</b>	<b>39.8</b>	<b>53.8</b>	<b>55.1</b>	<b>72.8</b>	<b>45.5</b>

Source: Company

### Tower manufacturing facility taken on lease in March 2018

In March 2018, BEPL entered into a three-year lease agreement with S.P engineering Industries facility located in Rampally. The plant has fabrication and galvanising facilities. The production capacity in the fabrication division is 1500 MT/month and galvanizing division is 2000 MT/month. The unit produces tower components for its own orders and also provides job-work services on conversion basis. The utilisation has been around 850-900 MT/month in the fabrication division and 1300-1400 MT/month in the galvanising division.

### Healthy capacity utilisation across AAC blocks and uPVC products

The company has an AAC blocks manufacturing facility in Jaggayapetta, Andhra Pradesh with annual production capacity of 1,08,000 cubic metre and sells AAC blocks under the brand name “Smartbrix”. With an increase in market demand, BEPL has expanded the AAC blocks manufacturing unit capacity to 1,62,000 cubic metre in April 2018 at a cost of Rs. 3.00 crore. The production capacity of uPVC manufacturing unit is 2,20,000 square feet per annum and its located in Gajuwaka, Vishakhapatnam. The plant commenced their operations in 2016. The capacity utilisation remained healthy at 77% for AAC blocks and 73% for uPVC products in H1 FY2019, which improved from 63% for AAC blocks and 68% for uPVC products in FY2018, respectively.

#### EXHIBIT 3: Capacity Utilisation

Autoclaved Aerated Concrete (AAC)	FY2016	FY2017	FY2018	H1 FY2019
Total capacity (Cu. M)	-	54,000	1,08,000	81,000
Production (Cu. M)	-	13592	67586	62913
Capacity utilised in %	-	25.17%	62.58%	77.67%
uPVC Windows and doors	FY2016	FY2017	FY2018	H1FY2019
Total capacity (Sq. Ft)	2,20,000	2,40,000	2,70,000	1,50,000
Production (Sq. Ft)	49940	172464	183681	109440
Capacity utilised in %	22.70%	71.86%	68.03%	72.96%

Source: Company

### Established client base with repeat orders; high customer concentration risk

BEPL primarily caters to various telecom service providers including Reliance Corporate IT Park Limited (RCIPL, 100% subsidiary of Reliance Jio Infocomm Ltd.), Indus Towers Limited, ATC India Tower Corporation Private Limited, etc. The company mainly derives revenues from the maintenance of telecom towers owned by the TSPs. The company also executes optical fibre cables (OFC) projects and performs splicing and maintenance of the cables by entering into O&M agreement. This results in high sectoral as well as geographical concentration. RCIPL contributed around 81% of the total revenues in H1 FY2019 (vs 58% in FY2018 and FY2017 vs 63% in FY2016). RCIPL’s projects comprise TSP services, OFC construction and O&M services.

### Moderate geographical concentration risk

Till FY2017, BEPL’s revenues remained concentrated in Andhra Pradesh and Telangana with 74% and 62% of the total revenues in FY2016 and FY2017 respectively. BEPL entered into O&M of telecom towers/OFC in AP and Telangana region with Reliance Jio, which has been the major customer over the last three years. On account of established relationship with RJio, the company has expanded its presence to Maharashtra, Karnataka, Tamil Nadu etc in FY2018 and H1 FY2019.

### Strong order-book position provides medium-term revenue visibility

The order book remained strong at Rs. 159.31 crore as on October 31, 2018, which primarily includes orders from the telecom segment. Of the order book, 39% of the total order book is from the TSP segment followed by 33% from OFC laying, 14% from telecom O&M segment and 13% from tower supply. The customers include Reliance Corporate IT Park Limited, Indus Towers Limited, Space Teleinfra Pvt. Ltd., ATC India Tower Corporation Private Limited spread across different states in India.

## FINANCIAL RISK PROFILE

### Healthy revenue growth at a CAGR of 49% in the last five years

The operating income (OI) increased from Rs. 20.41 crore in FY2014 to Rs. 101.90 crore in FY2018 primarily driven by improving capacity utilisation for AAC blocks and uPVC windows/doors along with increased O&M presence. It has achieved revenue of Rs. 125 crore till November 2018 and expects to achieve revenues of Rs. 180 crore in FY2019.

### Moderate operating margins

The operating margins ranged between 9-13% for the last five years; the operating margins are high at 12-13% for telecom projects followed by 10-11% in AAC bricks segment and for uPVC products, the margin ranges from 10-12%. The operating profit margins declined to 9.76% in H1 FY2019 from 13.09% in FY2017 on account of increased share of revenues from tower manufacturing segment where the margins are lower than other divisions. The net profit margins varied between 5% and 6% for the last five years. The ROCE remains healthy owing to improvement in BEPL's scale of operations and moderate profitability levels.

### Moderate working capital intensity owing to high debtor and inventory days

The working capital intensity was moderate at 23% in FY2018 owing to high debtor and inventory days. The credit period offered to the customers is 30 days after installation. However, the retention money will be held up by the client and will be realised within six to 18 months. The debtor days of the company stood at 94 days for FY2018 which reduced to 72 days in H1FY2019. More than 50% of the total sales of uPVC and AAC blocks are cash payments and remaining for a credit time of 45 days. The inventory days are high at 65 days in FY2018 owing to higher WIP inventory. WIP inventory comprises of all the in-progress tower/OFC projects for TSPs including foundation works, tower erection etc.

### Improved capital structure and comfortable debt coverage indicators

The gearing is moderate at 1.12 times as on September 30, 2018 which has increased from 0.64 times as on March 31, 2015 due to term loan taken for AAC manufacturing plant and higher working capital borrowings to support increase in scale of operations. The total debt as on September 30, 2018 is Rs. 24.10 crore, which includes Rs. 10.51 crore unsecured loans from directors (interest free), Rs. 9.78 crore cash credit utilisation and Rs. 3.81 crore term loans. The coverage indicators are healthy with interest coverage at 7.95 times, NCA /TD at 44% and Total Debt/OPBDITA 1.41 times during H1 FY2019.

### DEBT REPAYMENT AND LIQUIDITY PROFILE

The liquidity position is moderate with average utilisation of 71.4% in the last 12 months that ended on November 2018. BEPL got enhancement in cash credit limits to Rs. 14.50 crore in November 2018 from Rs. 9.00 crore, which will support its increased scale of operations. As on November 2018 end, the company has undrawn cash credit limits of Rs. 3.45 crore.

### BUSINESS AND FINANCIAL OUTLOOK

The company has achieved a revenue of Rs. 125 crore till November 2018 and expects to achieve revenues of Rs. 170 crore in FY2019 owing to company diversifying into tower manufacturing. The tower supplies revenue stood at Rs. 39 crore as on November 2018 and is expected to increase to Rs. 60 crore by yearend. Reliance Jio divided the operating zones as maintenance points (MPs) and at present, BEPL is handling 13 Reliance Jio's tower/OFC maintenance points in Telangana and Maharashtra.

#### EXHIBIT 4: Financial Outlook

Parameters	ICRA's Comments
Revenue Growth	75% growth expected in FY2019 on account of tower supply business
Profitability Indicators	OPM expected to be at the same level as in FY2018. Net margin is expected to marginally increase
Repayment Obligations	Rs.0.85 crore each in FY2019, FY2020 and in FY2021
Capital Expenditure Plans	Rs. 8-10 crore for the tower manufacturing facility in FY2021
Leverage and Coverage Indicators	Capital structure (TD/TNW) likely to improve on account of term loan repayments. Coverage indicators (OPBDITA/Interest) to improve supported by increased profitability
Working Capital Intensity	NWC/OI stood at 16% during H1 FY2019; likely to remain at the same levels

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Retained Cash Flows	Are likely to improve in FY2019 on account of increased scale of operations
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Liquidity	Moderate
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Source: Company Data

## **PROMOTER AND MANAGEMENT PROFILE**

### **Qualified management in the telecom tower industry**

Mr. Raghavendra Rao B. is the founder promoter and Managing Director of BEPL. He is a civil engineering graduate with over 20 years of experience in the industry. Prior to BEPL, he was working as Chief Operating Officer (COO) and Executive Director of Aster Pvt. Ltd. for 14 years. He has vast experience in EPC and project management primarily for telecom tower projects.

Mr. Satyanarayana is the Director of BEPL and SITPL. Prior to BEPL, he was working with Aster Pvt. Ltd. in formulating policies and devising organisational development plans. He takes care of the administration and financial management of the company. He also has vast experience in EPC and project management for telecom segment.

**ANNEXURE I: Key Financial Indicators**

In Rs. crore	FY2015	FY2016	FY2017	FY2018	H1 FY2019
Operating Income (OI)	40.56	56.98	71.51	101.90	87.24
Growth in OI (%)	98.77%	40.48%	25.50%	42.49%	71.24%
OPBDITA	3.95	5.95	9.36	11.77	8.52
Profit After Tax (PAT)	2.41	3.42	4.12	5.20	4.55
Net Cash Accruals (NCA)	2.68	4.05	6.17	7.45	5.25
OPBDITA/OI (%)	9.75%	10.44%	13.09%	11.55%	9.76%
PAT/OI (%)	5.95%	6.01%	5.76%	5.10%	5.21%
ROCE (%)	62.13%	41.84%	32.79%	31.19%	38.74%
<b>Capitalisation &amp; Coverage Indicators</b>					
Short-term Debt	0.34	2.11	5.31	8.10	9.78
Long-term Debt	2.63	8.35	9.07	10.40	14.32
Total Debt	<b>2.97</b>	<b>10.47</b>	<b>14.37</b>	<b>18.50</b>	<b>24.10</b>
Tangible Net Worth (TNW)	<b>4.63</b>	<b>8.06</b>	<b>12.17</b>	<b>17.37</b>	<b>21.53</b>
Total Debt/TNW	0.64	1.30	1.18	1.07	1.12
Total Debt/OPBDITA	0.75	1.76	1.54	1.57	1.41
Interest Coverage	29.26	17.58	10.62	7.91	7.95
TOL/TNW	2.28	2.76	3.33	2.78	3.02
NCA /TD (%)	90%	39%	43%	40%	44%
DSCR (excl STD/prepayments)	17.82	12.16	7.66	3.84	4.22
<b>Working Capital Indicators</b>					
Debtor Days	40	78	113	94	72
Creditor Days	271	354	372	392	103
Inventory Days	44	31	58	65	56
NWC/OI (%)	10%	15%	19%	23%	16%
<b>Cash Flow Analysis</b>					
Fund Flows from Operations	2.64	3.97	6.15	7.35	5.11
Retained Cash Flows	2.04	-0.84	1.11	-2.38	0.62
Free Cash Flows	-0.42	-7.71	-1.95	-5.70	-5.35

Source: Company Data

**ANNEXURE II: Details of Rated Facility****EXHIBIT 5: Details of BEPL's Facilities Rated on Long-term and Short-term Scale**

<b>Instrument Name</b>	<b>Amount (Rs. crore)</b>	<b>Rating</b>
Fund based – Cash credit	14.50	[ICRA]BBB (Stable)
Fund based – Term loan	4.21	[ICRA]BBB (Stable)
Non Fund based	5.00	[ICRA]A3+;
Unallocated	1.29	[ICRA]BBB (Stable)/ [ICRA]A3+

**Links to Applicable Criteria:**[Corporate Credit Rating Methodology](#)



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### 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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