October 12, 2021

Bondada Engineering Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based: Working capital facilities	31.00	31.00	[ICRA]BBB(Stable); reaffirmed
Fund-based: Term loans	2.49	3.00	[ICRA]BBB(Stable); reaffirmed
Non-fund based facilities	10.00	10.00	[ICRA]A3+; reaffirmed
Unallocated	0.51	-	
Total	**44.00**	**44.00**	

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation of the ratings continues to factor in Bondada Engineering Private Limited's (BEPL) operational track record and extensive experience of the promoters in design, installation and operation and maintenance of telecom towers and optical fibre cable (OFC) lines. The ratings also consider growing diversification of revenues with increasing geographical penetration and foray into new segments. The ratings factor in the low counterparty credit risk, given the company's reputed customer base with a track record of repeat business. Further, the company has an unexecuted order book position of Rs. 239.8 crore, which provides near-term revenue visibility. The ratings also consider an increase in revenues at a CAGR of ~40% from Rs. 57 crore in FY2016 to Rs. 287 crore in FY2021. Revenues primarily rose after diversification into tower manufacturing, procurement and construction (EPC) of solar power plants, aerated autoclaved concrete (AAC) block and unplasticised polyvinyl chloride (uPVC) windows/doors manufacturing along with addition of new customers and circles in telecom operations and maintenance (O&M) segment and in the solar EPC segment.

The ratings, however, remain constrained by BEPL's moderate operating margins of 5.6% in FY2021, which declined from 8% in FY2020 due to an increase in input cost, Covid-related expenses and an increase in share of revenues from lower-margin segments. The ratings continue to factor in the risk of high customer concentration with Reliance Jio contributing more than 50% to its revenues since the past few years. However, the customer concentration is expected to reduce with addition of new customers like Tata Communications Transformation Services Ltd. (TCTSL), KPI Global Infrastructure Limited and Bharti Airtel Ltd. A reputed customer profile mitigates the customer concentration risk to an extent. The ratings consider a moderate net worth position with TOL/TNW at 2.6 times as on March 31, 2021. The debt coverage indicators were comfortable with an interest coverage of 4.2 times, and TD/OPBITDA of 2.9 times in FY2021. The rating also considers high average utilisation of working capital limits in the past 15 months.

The Stable outlook assigned to the company reflects ICRA's expectation that BEPL would continue to maintain its credit profile with an expected improvement in revenue and profit margins along with an adequate liquidity position.

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 provides O&M services to telecom companies. The major customers include reputed companies like

Reliance Jio, Tata Communications Transformation Services Ltd., Indus Towers Limited, KPI Global Infrastructure Ltd., Bharti Airtel Ltd. 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, tower manufacturing, uPVC windows/ doors and AAC blocks manufacturing. Further, the company ventured into EPC of solar power plants in FY2020 and reported revenues of Rs. 48.1 crore in FY2021 from the segment and has pending orders worth Rs. 74.1 crore as on July 31, 2021.

Healthy revenue growth – The operating income of the company increased at a CAGR of ~40% from Rs. 57 crore in FY2016 to Rs. 287 crore in FY2021 primarily due to diversification into tower manufacturing, procurement and construction (EPC) of solar power plants, AAC blocks and uPVC windows/doors manufacturing along with addition of new customers and circles in the telecom O&M segment and in the solar EPC segment. Further, the company has achieved revenues of Rs. 131 crore in 5M FY2022 and is expected to achieve revenues of at least Rs. 300 crore in FY2022. The revenues are expected to increase on the back of healthy order book of Rs. 239.8 crore as on July 31, 2021, providing near-term revenue visibility.

Credit challenges

Decline in operating margins – The operating margins of the company declined to 5.6% in FY2021 from 8% in FY2020 owing to an increase in input cost, Covid-related expenses and higher share of revenues from lower-margin segments. Further, presence in the highly fragmented telecom industry constrains the profit margins of the company. Reduction in profitability resulted in a decrease in the return on capital employed (ROCE) to 16.3% in FY2021 from 38.4% in FY2019.

Moderate financial risk profile – The financial risk profile of the company is moderate with a gearing of 1.0 times and TOL/TNW of 2.6 times as on March 31, 2021 owing to moderate net worth position and high creditors. The total debt increased to Rs. 46.1 crore as on March 31, 2021 from Rs. 40.3 crore last year because of an increase in the working capital borrowings and Covid loan availed in FY2021. Nevertheless, the debt coverage indicators were comfortable with an interest coverage of 4.2 times, NCA/TD of 20%, and TD/OPBITDA of 2.9 times in FY2021.

High customer concentration – BEPL is exposed to high customer concentration risk with Reliance Jio contributing more than 50% to the revenue since the past few years. However, customer concentration is expected to reduce with addition of new customers like Tata Communications Transformation Services Ltd. (TCTSL), KPI Global Infrastructure Limited and Bharti Airtel Ltd. However, long-term association with reputed customers and addition of new customers in the recent past provide stability to business and aids in diversification of revenues.

Liquidity position: Adequate

The company's liquidity position is **adequate** with sufficient fund flow from operations and free cash and bank balance of Rs. 4.41 crore as on March 31, 2021. The average working capital limit utilisation remained high at 87% of the sanctioned limits for the past 15 months that ended in August 2021. Cash flows from the business and undrawn line of credit are likely to be sufficient to meet the debt repayment obligations (Rs. 3.1 crore in FY2022).

Rating sensitivities

Positive factors – ICRA could upgrade BEPL's ratings if the company demonstrates a healthy growth in orders and execution along with an improvement in profit margins and liquidity position. Specific credit metric that could lead to an upgrade of BEPL's ratings include TOL/TNW below 1.5 times on a sustained basis.

Negative factors – Pressure on BEPL's ratings could arise if there is a decline in new orders and execution or a decline in profitability on a sustained basis. Specific credit metrics that could lead to a downgrade of BEPL's ratings include an interest coverage below 3.00 times.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial statements of the company.

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 with manufacturing facility in Visakhapatnam and Hyderabad. Later in June 2017, the company has set up an AAC block manufacturing plant in Jaggayyapetta, Andhra Pradesh. The AAC blocks are sold under the brand, Smartbrix. In April 2018, BEPL ventured into tower manufacturing in Rampally, Medchal district of Telangana, which includes tower fabrication division and galvanising division. In FY2020, the company started solar EPC, where BEPL undertakes system integration services to build solar power projects (rooftop and ground mounted). The company has executed telecom and power projects across 16 states in India.

Key financial indicators (audited)

	FY2019	FY2020	FY2021 (provisional)
Operating Income (Rs. crore)	223.8	229.4	287.1
PAT (Rs. crore)	11.4	10.2	7.2
OPBDIT/OI (%)	8.6%	8.0%	5.6%
PAT/OI (%)	5.1%	4.5%	2.5%
Total Outside Liabilities/Tangible Net Worth (times)	2.7	2.6	2.6
Total Debt/OPBDIT (times)	1.3	2.2	2.9
Interest Coverage (times)	12.4	7.8	4.2

OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of March 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021		Date & Rating in FY2020	Date & Rating in FY2019
					October 12, 2021	Jun 09, 2020	May 08, 2020		Jan 03, 2019
1	Cash Credit	Long Term	31.00	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-	[ICRA]BBB (Stable)
2	Term Loan	Long Term	3.00	3.00	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-	[ICRA]BBB (Stable)
3	Non Fund based	Short Term	10.00	-	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	-	[ICRA]A3+
4	Unallocated	Long term/short term	-	-	-	[ICRA]BBB (Stable)/ [ICRA]A3+	[ICRA]BBB (Stable)/ [ICRA]A3+	-	[ICRA]BBB (Stable)/ [ICRA]A3+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based limits- Cash Credit	Simple
Term loans	Simple
Non-fund based facilities – Bank Guarantee	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	31.00	[ICRA]BBB(Stable)
NA	Term Loan	July 2020	NA	January 2023	3.00	[ICRA]BBB(Stable)
NA	Bank Guarantee	NA	NA	NA	10.00	[ICRA]A3+

Source: *Company*

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

ANALYST CONTACTS

Sabyasachi Majumdar
+91 124-4545304
sabyasachi@icraindia.com

Girishkumar Kadam
+91 22 6114 3441
girishkumar@icraindia.com

Sanket Thakkar
+91 079 40271528
sanket.thakkar@icraindia.com

Harshit Surana
harshit.surana@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.

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.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches