

September 06, 2024

Commtel Networks Private Limited: Long term rating upgraded and short-term rating reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term - Cash credit – Fund-based	135.00	185.00	[ICRA]A (Stable); long term rating upgraded from [ICRA]A- (Stable); assigned for enhanced amount
Long term/Short term – Others - Interchangeable	(135.00)	(185.00)	[ICRA]A (Stable)/[ICRA]A2+; long-term rating upgraded from [ICRA]A- (Stable), short-term rating reaffirmed; assigned for enhanced amount
Long term/Short-term Unallocated	20.00	50.00	[ICRA]A (Stable)/[ICRA]A2+; long-term rating upgraded from [ICRA]A- (Stable), short-term rating reaffirmed; assigned for enhanced amount
Total	155.00	235.00	

*Instrument details are provided in Annexure-I

Rationale

ICRA has considered the consolidated financials of Commtel Networks Private Limited (CNPL) with its UAE-based subsidiary Commtel Networks FZC (CNFZC) while assigning the credit ratings, given their common management and significant operational linkages.

The upgrade of the long-term ratings factors in ICRA's expectations of consistent revenue growth on the back of a robust order book position along with the sustenance of a strong credit profile over the medium term, driven by healthy profitability and debt coverage metrics and a comfortable liquidity position. The scale of operations has been consistently increasing, supported by a healthy order inflow. The liquidity position of the Indian entity also improved, evident from the available cash balances and buffer in the working capital limits. The order book position improved to around Rs. 645 crore as on June 30, 2024, which is likely to translate into comfortable revenue growth, going forward.

The ratings take comfort from the company's strong financial profile, reflected in its healthy profit margin in the range of 15-18% at an operating level. The capital structure and debt protection metrics are also comfortable, reflected in interest coverage of more than 9 times for FY2024 and debt/OPBDITA of 1.2 times as on March 31, 2024, which is likely to continue to be strong, going forward.

The ratings consider the company's established operational track record in executing turnkey projects and the promoter's vast experience in the industry. The company has established relations with reputed customers in India and overseas, which ensure repeat orders.

The ratings are, however, constrained by CNPL's moderate scale of operations, its high customer and sectoral concentration risks as 70-80% of the company's revenue is generated from the oil and gas sector and the resultant susceptibility of revenues and profits to any slowdown in this sector. The ratings continue to factor in the high working capital intensity owing to the build-up of debtor and stock position during year-end as there are sizeable revenue bookings in the last quarter of a fiscal.

The Stable outlook on the rating reflects ICRA's expectation of a consistent growth in the top line and sustenance of healthy profitability, going forward, translating into a comfortable credit profile.

Key rating drivers and their description

Credit strengths

Extensive track record in delivering turnkey telecommunications and surveillance solutions – CNPL is managed by Mr. Shriprakash Pandey and other key personnel who have experience of over three decades in delivering converged telecommunication systems and related solutions to customers in various sectors, such as oil and gas, power and transportation. The company has executed projects in India and overseas.

Established relationships with reputed customers – The company's customer base consists of various reputed companies in the oil and gas industry and established engineering, procurement and construction (EPC) players in the domestic and international market. There has been regular order inflow from existing customers and the company derives majority (~90%) of its revenues from them. Further, with the successful execution of contracts for various EPCs, the company has been able to establish itself as a preferred vendor and thus execute projects across geographies where these players are present.

Financial risk profile characterised by healthy profit margin, comfortable capital structure and strong coverage indicators – At a consolidated level, the operating profit has remained healthy and is likely to be in a range of 15-18%, going forward as well. The healthy cash accruals and low reliance on external borrowings have resulted in a comfortable capital structure. The gearing stood at 0.34 times as on March 31, 2024 (0.25 times as on March 31, 2023). The company's debt protection metrics have also remained healthy, reflected in the operating profit/interest of 9.13 times (7.88 times in FY2023), net cash accruals/total debt of 64% (84% in FY2023) and total debt/operating profit of 1.20 times (1.01 times in FY2023) in FY2024.

Strong order inflow offers comfortable medium-term revenue visibility – ICRA expects the company to report a steady revenue growth on the back of regular order inflow from the oil and gas industry along with additional growth from the new sub-segment of solar EPC and the new division of artificial intelligence digital transformation. The company had an unexecuted order book of ~Rs. 649 crore as on March 31, 2024, against an unexecuted order book of Rs. 442 crore as on March 31, 2023. As on June 30, 2024, the order book stands at ~Rs. 645 crore.

Credit challenges

High customer and sectoral concentration risks; efforts afoot to diversify – The company's operations remain exposed to high customer concentration risk with the top five customers accounting for 55% of the revenues in FY2024. In addition, given the company's high reliance on the oil and gas sector (contributing ~75-85% to the total revenues), its revenues and profit margin remain susceptible to any slowdown in investments in this sector.

Projects awarded through competitive bidding can lead to lumpiness in revenues – Commtel faces competition from companies operating on diverse business models which restricts its revenue growth. The company's hit ratio in FY2023 and FY2024 was 57% and 85%, respectively, compared with 45% in FY2022.

High working capital intensity – The company's net working capital intensity, reflected in its net working capital/operating income, was elevated due to high year-end debtor and inventory days. The net working capital intensity was 54% in FY2024 and 57% in FY2023. As the company generates 50-60% of the sales in the last quarter of the fiscal, the debtors remain high. Nevertheless, ICRA notes that majority of these are less than 60 days. The inventory days stood at 93 days in FY2024 and 114 days in FY2023.

Liquidity position: Adequate

The company's liquidity is adequate, reflected in the free cash and bank balance of ~Rs. 31.76 crore in the Indian entity and Rs. ~134.97 crore in its subsidiary as on March 31, 2024. Further, the company's average fund-based utilisation limit in the last 14 months ended June 30, 2024, stood at 76%, with average undrawn limits of Rs. ~22.0 crore. ICRA also notes that the total debt mainly includes working capital borrowings, and it does not have any major capex plans. While the working capital

requirement remains high, the healthy accruals generated by the company are expected to meet its incremental requirements with increasing revenues.

Rating sensitivities

Positive factors - The ratings could be upgraded if the company reports healthy revenue growth on the back of regular order inflows while maintaining its profit margin along with an improvement in liquidity at the standalone level.

Negative factors – The ratings can be downgraded if the company witnesses a considerable decline in sales, weakening of profitability or a deterioration in the liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of CNPL mentioned in Annexure II

About the company

CNPL, incorporated in 1998, is a turnkey provider of converged communication, surveillance and related technology solutions to customers in the oil and gas, power, transportation, mining and related sectors. It designs, builds, integrates and manages dedicated networks over optical fibre, radio or copper media. The company has deployed more than 1,14,000 km of telecommunication network across sectors. CNPL also has a UAE-based subsidiary, Commtel Networks FZC, through which it executes orders based in West Asia and the African (MEA) region.

In FY2024, the company reported a net profit of Rs. 56.11 crore on an OI of Rs. 380.83 crore, compared to a net profit of Rs. 26.49 crore on an OI of Rs. 263.59 crore in the previous year. As per the provisional results, the company has reported a net profit of Rs. 14.11 crore on an OI of Rs. 195.23 crore in H1 FY2024.

Key financial indicators (audited)

Consolidated	FY2023	FY2024*
Operating income	380.83	512.48
PAT	56.11	77.52
OPBDIT/OI	19.81%	21.48%
PAT/OI	14.73%	15.13%
Total outside liabilities/Tangible net worth (times)	0.60	0.74
Total debt/OPBDIT (times)	1.01	1.20
Interest coverage (times)	7.88	9.13

Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. Crore PAT: Profit after tax; 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

			Current (FY2025)				Chronology of rating history for the past 3 years					
			FY2025				FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs Crore)	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Fund-based limits	Long term	185.00	06-Sep-2024	[ICRA]A (Stable)	28-JUN-2024	[ICRA]A-(Stable)	30-NOV-2023	[ICRA]A-(Stable)	30-SEP-2022	[ICRA]A-(Stable)	22-JUN-2021	[ICRA]BB B+ (Positive)
Interchangeable limits	Long term and short term	(185.00)	06-Sep-2024	[ICRA]A (Stable) / [ICRA] A2+	28-JUN-2024	[ICRA]A-(Stable) / [ICRA] A2+	30-NOV-2023	[ICRA]A-(Stable) / [ICRA] A2+	30-SEP-2022	[ICRA]A-(Stable) / [ICRA] A2+	22-JUN-2021	[ICRA]BB B+ (Positive) / [ICRA] A2
Non-fund based limits	Short term	--	--	--	--	--	--	--	--	--	22-JUN-2021	[ICRA]A2
Unallocated limits	Long term and short term	50.00	06-Sep-2024	[ICRA]A (Stable) / [ICRA] A2+	28-JUN-2024	[ICRA]A-(Stable) / [ICRA] A2+	30-NOV-2023	[ICRA]A-(Stable) / [ICRA] A2+	--	--	--	--

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term fund-based limits	Simple
Long-term/Short-term interchangeable limits	Very Simple
Long-term/Short-term unallocated limits	NA

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 are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long term fund-based limits	-	-	-	185.00	[ICRA]A (Stable)
NA	Long-term/Short-term interchangeable limits*	-	-	-	(185.00)	[ICRA]A (Stable)/[ICRA]A2+
NA	Long-term/Short-term unallocated limits	-	-	-	50.00	[ICRA]A (Stable)/[ICRA]A2+

Source: Company

*xx Bank- Rs. 50-crore sub-limits are interchangeable between fund-based and non-fund based limits such that the maximum utilisation of cash credits cannot exceed Rs. 50.00 crore, maximum utilisation of working capital demand loan (WC DL) cannot exceed Rs. 45.00 crore, total utilisation of export finance cannot exceed Rs. 35.00 crore and total utilisation of bank guarantees should not exceed Rs. 20.00 crore, inter-citi SBLC cannot exceed Rs. 15.00 crore.

yy Bank- Rs. 25-crore sub-limits re interchangeable between fund-based and non-fund based limits such that the maximum utilisation of working capital demand loan (WC DL) cannot exceed Rs. 17.00 crore, total utilisation of bank guarantees should not exceed Rs. 25.00 crore & total utilisation of letter of credit cannot exceed Rs. 25.00 crore.

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Commtel Networks FZE	100.00%	Full Consolidation

Source: Company

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About ICRA Limited:

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Branches



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