

February 15, 2017

## BEKEM Infra Projects Private Limited

Instruments*	Amount Rated (Rs. crore)	Rating Action
Fund based limits	50.00	[ICRA]A-(Stable)/upgraded from [ICRA]BBB+(Stable)
Long term Non Fund based	145.00	[ICRA]A-(Stable)/upgraded from [ICRA]BBB+(Stable)
Long term: Non fund based limits (Unallocated)	84.00	[ICRA]A-(Stable)/upgraded from [ICRA]BBB+(Stable)

\*Instrument details are provided in Annexure-1

### Rating Action

ICRA has upgraded the long term rating assigned to the Rs. 50.00 crore<sup>1</sup> fund based limits, Rs. 145 crore non fund based limits and Rs. 84.00 crore unallocated limits of Bekem Infra projects Private Limited ("BEKEM" / "the company")† to [ICRA]A- (pronounced ICRA A minus) from [ICRA]BBB+(pronounced ICRA triple B plus). The outlook on the long-term rating is Stable.

### Rationale

The rating upgrade takes into account the improved segmental diversification of BEKEM with entry into construction of roads and railway bridges which account for 26% of the closing order book at the end of H1FY2017. This has also helped BEKEM to spread its geographical presence to over 10 states. The rating also factors in BEKEM's healthy leverage and coverage indicators with gearing and TOL/TNW<sup>2</sup> at 0.70 times, 1.93 times respectively and interest coverage at 3.43 times at the end of H1FY2017. The total order book stood at Rs.1205 cr which is 4.56 times of FY2016 OI; providing good revenue visibility in medium term. The company has received orders worth Rs.594 cr during FY2017 till January, 2017. The rating also draws comfort from BEKEM's demonstrated ability in executing relatively complex hydro mechanical (HM) works for irrigation dams and Hydel power projects.

However, the rating remains constrained by the slow moving orders—three irrigation projects in Maharashtra which account for 25% of BEKEM's order book due to poor fund allocation by the project owner and one irrigation project in Telangana accounting for ~21% of the order book is yet to commence as the design and drawings for the projects are yet to be approved. However, ICRA notes that the Maharashtra projects have started moving and Rs.16.43 cr has been billed till January, 2017 out of which Rs.11.03 cr has been realized. Although these projects were awarded before five-eight years ago, presence of price escalation clauses, relatively low retention money and performance bank guarantees coupled with optimal deployment of resources based on fund allocations has ensured that BEKEM's profitability is not adversely affected due to execution delays. BEKEM also remains exposed to execution risks as ~70% of the outstanding order book is in preliminary stages of execution, with less than 25% financial progress. ICRA also notes that the irrigation and hydro power projects are exposed to delays on account of various social and political factors influencing the decision making in the initial stages and the time involved in getting required clearances and approvals.

Going forward, BEKEM's ability to further diversify its order book while sustaining the operating margins at current levels and effectively manage its working capital requirements are key rating sensitivities. Any drop in operating margins and delay in realizing receivables could stretch the liquidity position of the company given the increasing margin money requirements (for NFB exposure) as the company continues to execute more projects.

<sup>1</sup> 100 lakh = 1 crore = 10 million

† For complete rating scale and definitions please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

<sup>2</sup> TOL/TNW = Total Outside Liabilities/Total Net worth

## Key rating drivers

### Credit Strengths

- Competent management and established presence in execution of Hydro mechanical works
- Diversified order book with entry into roads construction, railway bridge construction etc. (26% of the balance order book at the end of H1FY2017). Operating margins have remained steady despite entry in to these competitive segments
- Healthy financial profile with gearing, TOL/TNW at 0.70 times, 1.93 times and interest coverage at 3.43 times at the end of H1FY2017

### Credit Weakness

- Slow pace of execution in around 46% of the order book due to poor fund allocation by project owners (government bodies). However, presence of price escalation clauses, relatively low retention money and performance bank guarantees coupled with optimal deployment of resources based on fund allocations has ensured that BEKEM's profitability is not adversely affected due to execution delays.
- Vulnerable to delays in execution of irrigation and hydro power projects due to delays in securing clearances and approvals
- Execution risks as ~70% of the outstanding order book is in preliminary stages of execution, with less than 25% financial progress, out of which 25% are yet to commence

### Description of key rating drivers highlighted above:

With entry into construction of roads and railways bridges in the recent past, BEKEM's sector and geographical diversification has improved. These are relatively shorter duration projects when compared to HM and irrigation works. Despite entry into highly competitive segments, the operating margins of the company have remained steady at around 12.5% over last two years. The financial profile of the company continues to remain healthy with low leverage and good coverage metrics. Also, BEKEM has received regularly new orders with orders worth Rs.594 cr received during 10MFY2017.

BEKEM has four projects in the irrigation segment which are long gestation projects (accounting for ~46% of the order book outstanding with three projects in Maharashtra and one in Telangana) whose execution has been impacted due to poor fund allocation by the respective state government bodies. Although these projects were awarded before five-eight years ago, presence of price escalation clauses, relatively low retention money and performance bank guarantees coupled with optimal deployment of resources based on fund allocations has ensured that BEKEM's profitability is not adversely affected due to execution delays. Also, BEKEM is prone to execution risks as ~70% of the outstanding order book is in preliminary stages of execution, with less than 25% financial progress, out of which 25% are yet to commence. ICRA also notes that the irrigation and hydro power projects are exposed to delays on account of various social and political factors influencing the decision making in the initial stages and the time involved in getting required clearances and approvals.

**Analytical approach:** For arriving at the ratings, ICRA has taken into account BEKEM's business risk profile, financial risk drivers and the management profile.

### Links to applicable Criteria

**Corporate Credit Ratings: A Note on Methodology**

**ICRA Rating methodology: Construction Companies**

### About the Company:

Bekem Infra Projects Private Limited ("BEKEM" / "the company") was started in the year 1994 as a proprietorship concern (M/s B. Krishna Mohan Engineers & Contracts), based out of Hyderabad. The proprietorship was converted in to a partnership firm with effect from April 1, 2008 and subsequently converted into a private limited company with effect from September 15, 2009. The Company executes hydro-mechanical and civil construction works on sub contract basis for EPC contractors in the irrigation and hydro power sector. BEKEM also has its own fabrication unit for carrying out Hydro Mechanical Works of irrigation projects. In the last three years, the company also diversified into roads, railway bridges and canal works by executing projects on a sub-contract basis in different states across India.

**Status of non-cooperation with previous CRA:** Not Applicable.

**Any other information:** Not Applicable.

**Rating History for last three years:**

**Table: Rating History**

S. No.	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years			
		Type	Rated amount (Rs. Crores)	Month - year & rating	Month - year & Rating in FY2016		Month - year & Rating in FY2015	Month - year & Rating in FY2014
1	Fund based	Long term	50	<b>Feb 2017</b>	<b>March 2016</b>	<b>September 2015</b>	<b>September 2014</b>	<b>August 2013</b>
				[ICRA]A-(Stable)	[ICRA]BBB+(Stable)	[ICRA]BBB+(Stable)	[ICRA]BBB+(Stable)	[ICRA]BBB+(Stable)
2	Non fund based	Long term	145	[ICRA]A-(Stable)	[ICRA]BBB+(Stable)	[ICRA]BBB+(Stable)	[ICRA]BBB+(Stable)	[ICRA]BBB+(Stable)
3	Long term unallocated	Long term	84	[ICRA]A-(Stable)	[ICRA]BBB+(Stable)	[ICRA]BBB+(Stable)	[ICRA]BBB+(Stable)	[ICRA]BBB+(Stable)

**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](http://www.icra.in)

**Annexure-1**  
**Details of Instruments**

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Fund based - cash credit	-	-	-	50.00	[ICRA]BBB+(Stable)
Non –fund based	-	-	-	145.00	[ICRA]BBB+(Stable)
Long term unallocated	-	-	-	84.00	[ICRA]BBB+(Stable)

Source: BEKEM

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**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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