

Bekem Infra Projects Private Limited

March 05, 2018

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based- Cash Credit	50.00	50.00	[ICRA]A-(Stable); reaffirmed
Non-fund based-Bank Guarantee	145.00	160.00	[ICRA]A-(Stable); reaffirmed
Unallocated Limits	84.00	140.00	[ICRA]A-(Stable); reaffirmed
Total	279.00	350.00	

Rating action:

ICRA has reaffirmed the long-term rating assigned to the Rs. 50.0-crore¹ fund-based limits, Rs. 160.0-crore (Rs. 145.0-crore earlier) non-fund-based limits and Rs. 140.0-crore (Rs. 84.0-crore earlier) unallocated limits of Bekem Infra Projects Private Limited (BIPPL/ BEKEM)² at [ICRA]A- (pronounced ICRA A minus). The outlook on the long-term rating is Stable.

Rationale:

The rating reaffirmation takes into account the ~15% Y-o-Y growth in operating income (OI) to Rs. 155.3 crore in H1FY2018 backed by healthy execution of Polavaram project in Andhra Pradesh (AP), Mid Manair in Telangana and road project in Chhattisgarh. The rating also factors in the new orders received by BIPPL worth Rs. 467 crore in 9M FY2018 resulting in an unexecuted orderbook of Rs.1383 crore as on December 31, 2017 which is 4.48 times OI of FY2017; providing good revenue visibility in medium term. The rating also considers BIPPL's limited dependence on external borrowings resulting in healthy leverage and coverage indicators with gearing and TOL/TNW at 0.47 times, 1.86 times respectively and interest coverage at 3.83 times at the end of H1FY2018. Over the last few years, the segmental diversification improved with the company's entry into construction of roads, railway bridges and hydro-electric works. As on December 31, 2017, irrigation segment accounted for 76% of the outstanding order book, followed by railway at 21%, and the remaining 3% accounted by roads and hydro-electric segment. Despite entry into highly competitive segments, the operating margins have remained steady at around 12.5% for last three years owing to cluster-based approach with conservative bidding. The rating continues to draw comfort from the experienced management and BEKEM's demonstrated capabilities in executing relatively complex hydro mechanical (HM) works for irrigation dams and Hydel power projects.

However, the rating remains constrained by the execution risks as ~62% of the outstanding order book is in preliminary stages of execution, with less than 25% financial progress, and 51% are yet to commence. Any delay in securing design approvals and requisite approvals could adversely affect BIPPL's revenues. ICRA also notes that the irrigation and hydro power projects are exposed to delays because of various social and political factors influencing the decision making in the initial stages and the time involved in getting required clearances and approvals. Further, ICRA notes that three irrigation projects in Maharashtra which account for 24% of BEKEM's outstanding order book are slow moving due to poor fund allocation by the project owner. 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.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Going forward, BEKEM's ability to further diversify its order book, sustain its operating margins at current levels while effectively managing its working capital requirements will remain key rating sensitivities. Any drop in operating margins along with elongation in receivable cycle could exert pressure on the liquidity position of the company and therefore will be key monitorables.

Outlook: Stable

ICRA believes that BIPPL will continue to benefit from its demonstrated ability in execution of HM works and cluster-based approach for bidding. The outlook may be revised to Positive if the company achieves better than expected growth in revenue and profitability with improved working capital cycle thereby strengthening its financial risk profile. The outlook may be revised to Negative in case of delay in execution of projects, higher than expected debt-funded capital expenditure programme or stretch in the working capital cycle.

Key rating drivers

Credit strengths

Healthy growth in OI: The company has witnessed ~15% Y-o-Y growth in operating income (OI) to Rs. 155.3 crore in H1FY2018 backed by healthy execution of Polavaram project in Andhra Pradesh (AP), Mid Manair in Telangana and road project in Chhattisgarh.

Strong order book position: BIPPL has received new orders worth Rs. 467-crore in 9M FY2018 resulting in an unexecuted orderbook of Rs.1383 crore as on December 31, 2017 which is 4.48 times OI of FY2017; providing good revenue visibility in medium term.

Improvement in segment diversification: Over the last few years, the segmental diversification improved with the company's entry into construction of roads, railway bridges and hydro-electric works. Despite entry into highly competitive segments, the operating margins have remained steady at around 12.5% for last three years owing to cluster-based approach with conservative bidding.

Healthy financial profile: BIPPL's limited dependence on external borrowings resulting in healthy leverage and coverage indicators with gearing and TOL/TNW at 0.47 times, 1.86 times respectively and interest coverage at 3.83 times at the end of H1FY2018

Capabilities in executing complex HM works: The rating continues to draw comfort from the experienced management and BEKEM's demonstrated capabilities in executing relatively complex HM works for irrigation dams and Hydel power projects.

Credit Challenges

Execution risks: BIPPL is exposed to execution risks as ~62% of the outstanding order book is in preliminary stages of execution, with less than 25% financial progress, and 51% are yet to commence. Any delay in securing design approvals and requisite approvals could adversely affect BIPPL's revenues.

Vulnerable to external factors: The irrigation and hydro power projects are exposed to delays because of various social and political factors influencing the decision making in the initial stages and the time involved in getting required clearances and approvals.

Slow-moving irrigation projects in Maharashtra: The company has three irrigation projects in Maharashtra which account for 24% of BEKEM's outstanding order book are slow moving due to poor fund allocation by the project owner. 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

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[ICRA Rating Methodology: Construction companies](#)

About the company:

Bekem Infra Projects Private Limited 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. BIPPL 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 work by executing projects on a sub-contract basis in different states across India.

Key financial indicators

	FY2016	FY2017	H1 FY2018^
Operating Income (Rs. crore)	261.6	308.5	155.3
PAT (Rs. crore)	11.4	13.6	7.2
OPBDIT/ OI (%)	11.7%	12.6%	13.1%
RoCE (%)	19.9%	22.1%	21.1%
Total Debt/ TNW (times)	0.7	0.4	0.5
Total Debt/ OPBDIT (times)	1.9	1.1	1.3
Interest Coverage (times)	3.3	3.4	3.8
NWC/ OI (%)	29%	22%	25%

Source: KIMS and ICRA research: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress); NWC: Net Working Capital

^Unaudited financials

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Chronology of Rating History for the past 3 years									
Current Rating (FY2018)									
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs crore)	Date & Rating March 2018	Date & Rating in FY2017 February 2017	Date & Rating in March 2016	Date & Rating in FY2016 September 2015	Date & Rating in FY2015 September 2014	
1 Cash Credit	Long Term	50.00	50.00	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	
2 Bank Guarantee	Long Term/	160.00	160.00	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	
3 Unallocated	Long Term	140.00	140.00	[ICRA]A- (Stable)	[ICRA]A- (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

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	-	10.25%-12%	-	50.00	[ICRA]A- (Stable)
NA	Bank Guarantee	-	-	-	160.00	[ICRA]A- (Stable)
NA	Unallocated	-	-	-	140.00	[ICRA]A- (Stable)

Source: BIPPL

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