

## Bekem Infra Projects Private Limited

October 08, 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	160.00	160.00	[ICRA]A- (Stable); reaffirmed
Unallocated Limits	140.00	140.00	[ICRA]A- (Stable); reaffirmed
<b>Total</b>	<b>350.00</b>	<b>350.00</b>	

### Rating action:

ICRA has reaffirmed the long-term rating assigned to the Rs. 50.0-crore<sup>1</sup> fund-based limits, Rs. 160.0-crore non-fund-based limits and Rs. 140.0-crore unallocated limits of Bekem Infra Projects Private Limited (BIPPL)<sup>2</sup> at [ICRA]A- (pronounced ICRA A minus). The outlook on the long-term rating is Stable.

### Rationale:

The rating reaffirmation takes into account the improved revenue visibility in medium term on account of new orders received by BIPPL worth Rs. 441 crore in Q1 FY2019 resulting in healthy outstanding orderbook of Rs. 1654.8 crore as on June 30, 2018. The rating also factors in the healthy growth of 21% in operating income (OI) to Rs. 372.4 crore in FY2018 backed by healthy execution of irrigation projects in the states of Telangana and AP, railway projects in Odisha and road project in Chhattisgarh. Further, improved funding for the three struck irrigation projects in Maharashtra with allocations from central government, these projects have started moving (Rs. 24.9 crore billed in Q1 FY2019). Over the last few years, BIPPL's segmental diversification improved with entry into construction of roads, railway bridges and hydro-electric works. As on June 30, 2018, irrigation segment accounted for 65% of the outstanding order book, followed by railway at 33%, and the remaining 2% accounted by roads and hydro-electric segment. The rating also considers healthy financial profile of BIPPL with limited dependence on external borrowings resulting in healthy leverage and coverage indicators with gearing and TOL/TNW at 0.4 times, 1.5 times respectively, interest coverage and TD/OPDBIT at 3.8 times and 1.2 times at the end of FY2018. 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 ~58% of the outstanding order book is in nascent stages (with less than 25% financial progress) of execution, and 95% of these are yet to commence. Any delay in securing design approvals and requisite approvals could adversely affect BIPPL's revenues. The rating is also constrained by high customer concentration risk with RVNL contributing to 33% of outstanding orderbook as on June 30, 2018. Also, the company remains exposed to geographical concentration risks as 67% of outstanding orderbook is from AP and Telangana. 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

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

<sup>2</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

clearances and approvals. Shift from sub-contracting to principal contractor would result in increased non-fund based limit requirement; therefore, ability of the company to secure enhancements in a timely manner would remain critical to support the growth in medium term.

Going forward, BEKEM's ability to further diversify its order book, improve its operating margins 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 monitorable.

## 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

**Strong order book position:** Improved revenue visibility in medium term on account of new orders received by BIPPL worth Rs. 441 crore in Q1 FY2019 resulting in healthy outstanding orderbook of Rs. 1654.8 crore as on June 30, 2018.

**Healthy growth in OI:** The company has witnessed healthy growth of 21% in operating income (OI) to Rs. 372.4 crore in FY2018 backed by healthy execution of irrigation projects in states of Telangana and AP, railway projects in Odisha and road project in Chhattisgarh. Further, improved funding for the three struck irrigation projects in Maharashtra with allocations from central government, these projects have started moving (Rs. 24.9 crore billed in Q1 FY2019).

**Improvement in segment diversification:** Over the last few years, BIPPL's segmental diversification improved with entry into construction of roads, railway bridges and hydro-electric works. As on June 30, 2018, irrigation segment accounted for 65% of the outstanding order book, followed by railway at 33%, and the remaining 2% accounted by roads and hydro-electric segment.

**Healthy financial profile:** BIPPL's limited dependence on external borrowings resulting in healthy leverage and coverage indicators with gearing and TOL/TNW at 0.4 times, 1.5 times respectively, interest coverage and TD/OPDBIT at 3.8 times and 1.2 times at the end of FY2018. 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

**Orderbook exposed to execution risks:** BIPPL is exposed to execution risks as ~58% of the outstanding order book is in nascent stages (with less than 25% financial progress) of execution, and 95% of these are yet to commence. Any delay in securing design approvals and requisite approvals could adversely affect BIPPL's revenues.

**Customer and geographic concentration risk:** RVNL remains one of the largest customer for TTIPL with ~33% of outstanding orders as on June 30, 2018 are by RVNL. Also, the company remains exposed to geographical concentration risks as 67% of outstanding orderbook is from AP and Telangana.

**Timely enhancement in non-fund based limits:** Shift from sub-contracting to principal contractor would result in increased non-fund based limit requirement; therefore, ability of the company to secure enhancements in a timely manner would remain critical to support the growth in medium term.

**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.

**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 four 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

	FY2017 Audited	FY2018 Audited
Operating Income (Rs. crore)	308.5	372.4
PAT (Rs. crore)	13.6	17.5
OPBDIT/ OI (%)	12.6%	12.0%
RoCE (%)	22.1%	23.5%
Total Debt/ TNW (times)	0.4	0.4
Total Debt/ OPBDIT (times)	1.1	1.2
Interest Coverage (times)	3.4	3.8

Source: BIPPL

**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 (FY2019)								
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs crore)	Date & Rating October 2018	Date & Rating in FY2018 March 2018	Date & Rating in FY2017 February 2017	Date & Rating in March 2016	Date & Rating in September 2015
1 Cash Credit	Long Term	50.00	50.00	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
2 Bank Guarantee	Long Term	160.00	160.00	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
3 Unallocated	Long Term	140.00	140.00	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (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: 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	-	10.00%	-	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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