Bondada Engineering Private Limited

January 03, 2019

Summary of rated instruments

Instrument	Current Rated Amount (Rs. crore)	Rating Action
Fund based – Cash credit	14.50	[ICRA]BBB (Stable); Assigned
Fund based – Term loan	4.21	[ICRA]BBB (Stable); Assigned
Non Fund based	5.00	[ICRA]A3+; Assigned
Unallocated	1.29	[ICRA]BBB (Stable)/ [ICRA]A3+; Assigned
Total	**25.00**	

Rationale

The assigned ratings favorably factors in BEPL's demonstrated track record in design, installation and operation & maintenance of telecom towers and OFC lines for the last 6 years; and diversified business profile with presence in telecom services, tower manufacturing, uPVC windows/doors and Aerated Autoclaved Concrete (AAC) block manufacturing. The ratings also consider strong growth in revenues at a CAGR of 49% from Rs 20.41 crore in FY2014 to Rs 101.90 crore in FY2018 primarily driven by telecom tower works and improved capacity utilisation of AAC blocks; repeat orders from Reliance Jio Infocomm Ltd (RJio) for telecom tower services; and positive demand outlook for AAC blocks industry with increasing market adoption.

The ratings, however, are constrained by high customer concentration with RJio contributing to more than 60% of total revenues in the last 3 years; moderate operating margins of 9.76% in H1FY2019 which declined from 13.09% in FY2017 due to increased competitive intensity; and moderate financial risk profile with gearing at 1.12 times as on September 30, 2018 owing to debt funded capex and working capital borrowings. The ratings are also constrained by high geographical concentration with 58% of total revenues derived from Telangana and Andhra Pradesh in H1FY2019 (vs 46% in FY2018); presence in highly fragmented industry like telecom and transmission tower constraining the profitability margins of the company; and high working capital requirements owing to moderate debtor and inventory levels. Further, the debt funded working capital requirements is expected to constrain the improvement in coverage indicators in the medium term.

Outlook: Stable

The Stable outlook reflects ICRA belief that BEPL scale of operations is expected to improve with diversification into tower manufacturing business and margins to continue at H1FY2019 levels. The outlook may be revised to Positive if there is substantial growth in revenues along with improvement in margins and improved liquidity profile. The outlook may be revised to Negative if there is significant drop in operating margins, or stretch in the working capital cycle, weakening liquidity.

Key rating drivers

Credit strengths

Established track record of BEPL in telecom towers industry: Incorporated in 2012, BEPL is engaged in design and erection of telecom towers and also provides tower O&M services to telecom companies. BEPL provides O&M services to over 9,600 telecom towers and 13,900 km long OFC line across Telangana, Maharashtra and Karnataka states as of

December 20, 2018. The major customers include Reliance Jio Infocomm Ltd, Ericsson India Pvt. Ltd, Bharti Infratel Limited, Nokia Solutions and Networks India Pvt Ltd, Indus Towers Limited, ZTE Telecom India Private Limited etc.

Diversified business profile: BEPL has presence in design, erection and maintenance of telecom towers, uPVC windows/ doors and AAC blocks manufacturing. In March 2018, BEPL ventured into tower manufacturing through a leased facility located in Rampally, Telangana. BEPL is also engaged in manufacturing of AAC blocks and uPVC windows/doors (contributed around 20% of revenues till FY2018) through its manufacturing plants located in Krishna and Vishakhapatnam districts respectively. The AAC blocks are sold under the brand “Smartbrix” and uPVC windows are sold under the brand “Smart windoors”.

Healthy revenue growth at a CAGR of 49% for the last 5 years: The operating income of the company increased from Rs. 20.41 crore in FY2014 to Rs. 101.90 crore in FY2018 driven by improving capacity utilisation for AAC blocks along with increased revenues from telecom tower services. Further, the company has achieved revenues of Rs. 125 crore till November 2018 and expects to achieve sales of Rs. 180 crore in FY2019 with the commencement of tower manufacturing in April 2018.

Revenue visibility with moderate orderbook position: The order book is moderate at Rs 96.26 crore as on October 31, 2018 providing medium term revenue visibility. Of the unexecuted order book, 39% of the total order book is from telecom services segment followed by 33% from OFC laying, 14% from telecom O&M segment and 13% from tower supply. The customers include Reliance Corporate IT Park Limited, Indus Towers Limited, Space Teleinfra Pvt Ltd, ATC India Tower Corporation Private Limited with execution spread across different states in India.

Credit challenges

High customer concentration with RJIO contributing to more than 50% of total sales: The company derived more than 50% of revenues from RJIO over the past 3 years; the company provided telecom tower erection and maintenance, and OFC laying services to RJIO. In H1FY2019, BEPL also started supplying telecom towers manufactured at a leased facility to RJIO. Given the significant order book from RJIO, the customer concentration risk is expected to be high in the medium term.

Dip in operating margins to 9.76% in H1 FY2019: The operating margins of the company declined from 13.09% in FY2017 to 9.76% in H1FY2019 on account of decrease in proportion of revenues from telecom services segment. Also, the margins in tower manufacturing segment is lower than other divisions which reduced the operating margins in H1FY2019. Further, presence in highly fragmented industry like telecom and transmission tower constrains the profitability margins of the company.

Moderate financial risk profile: The financial risk profile is moderate with gearing at 1.12 times as on September 30, 2018 which has increased from 0.64 times as on March 31, 2015 owing to debt funded capex and increased working capital debt. The total debt as on September 30, 2018 is Rs. 24.10 crore which includes Rs. 10.51 crore unsecured loans from directors (interest free), Rs 9.78 crore cash credit utilisation and Rs. 3.81 crore term loans. However, the coverage indicators are healthy with interest coverage at 7.91 times, DSCR at 3.84, NCA/TD at 40% and TD/OPBIDTA at 1.57 times in FY2018.

Moderate working capital intensity: The working capital intensity is moderate at 23% in FY2018 owing to moderate debtor and inventory levels. The company offers 30 days of credit period to telecom companies. However, the retention money of 5-10% will be released within 6-18 months from project completion. The inventory days are high at 50-60 days due to high proportion of work in progress for tower/OFC projects. Further, the working capital requirements are expected to increase on the back of increase in scale of operations and is expected to be funded primarily by enhancement in bank limits.

Liquidity Position:

The liquidity position is moderate with average utilisation of 71.4% in the last 12 months ended November 2018. The company got enhancement in cash credit limits from Rs. 9.00 crore to Rs. 14.50 crore in November 2018 which will support the increased scale of operations. As on November 2018 end, the company has undrawn cash credit limits of Rs. 3.45 crore.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	[Corporate Credit Rating Methodology]
Parent/Group Support	Not applicable
Consolidation / Standalone	Standalone

About the company:

BEPL was incorporated in 2012 by Mr. Ragavendar Rao and Mr. B Satyanarayana for carrying out design, erection and maintenance of telecom towers for Telecom Service Providers (TSP). In FY2016, the company diversified into manufacturing of unplasticized Polyvinyl Chloride (uPVC) windows/ doors. The manufacturing plant is situated in Gajuwaka, Vishakhapatnam and has a production capacity of 2,20,000 square feet per annum. Later in June 2016, the company has set up an Autoclaved Aerated Concrete (AAC) blocks manufacturing plant in Jaggayyapetta, Andhra Pradesh with annual production capacity of 1,00,000 cubic meters. With increase in market demand, BEPL has expanded the AAC blocks manufacturing capacity to 1,50,000 cubic meters in April 2018 at a capex of Rs. 3.00 crore. The AAC blocks are sold under the brand “Smartbrix”. In April 2018, BEPL ventured into tower manufacturing through a leased unit located in Rampally, Medchal district of Telangana. The production capacity of the tower fabrication division is 1500 MT/month and galvanizing division is 2000MT/month. The company has executed telecom and power projects across 16 states in India.

Key financial indicators:

	FY2017	FY2018	H1 FY2019
Operating Income (Rs. crore)	71.51	101.90	87.24
PAT (Rs. crore)	4.12	5.20	4.55
OPBDIT/ OI (%)	13.09%	11.55%	9.76%
RoCE (%)	32.79%	31.19%	38.74%
Total Debt/ TNW (times)	1.18	1.07	1.12
Total Debt/ OPBDIT (times)	1.54	1.57	1.41
Interest coverage (times)	10.62	7.91	7.95

Source: BEPL

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2019) Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating Jan 2019	Chronology of Rating History for the past 3 years: Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
						-	-	-
1	Cash credit	Long Term	14.50	-	**[ICRA]BBB(Stable)**	-	-	-
2	Term loan	Long Term	4.21	4.21	**[ICRA]BBB(Stable)**	-	-	-
3	Non Fund based	Short Term	5.00	-	**[ICRA]A3+**	-	-	-
4	Unallocated	Long term/ short term	1.29	-	**[ICRA]BBB(Stable)/ [ICRA]A3+**	-	-	-

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	29/11/2018	-	-	14.50	**[ICRA]BBB(Stable)**
NA	Term loan	29/11/2018	-	29/11/2022	4.21	**[ICRA]BBB(Stable)**
NA	Non Fund based	29/11/2018	-	-	5.00	**[ICRA]A3+**
NA	Unallocated	-	-	-	1.29	**[ICRA]BBB(Stable)/[ICRA]A3+**

Source: BEPL

ANALYST CONTACTS

Mr. K. Ravichandran
+91 44 4596 4301
ravichandran@icraindia.com

Mr. R Srinivasan
+91 44 4596 4315
r.srinivasan@icraindia.com

Mr. Vinay Kumar G
+91 40 4067 6533
vinay.g@icraindia.com

Mr. Naren Rajeev Kumar K
+91 40 4067 6529
naren.kumar@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:

+91-124-2866928 (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

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
Ahmedabad	+ (91 79) 2658 4924/5049/2008
Hyderabad	+ (91 40) 2373 5061/7251
Pune	+ (91 20) 2556 0194/ 6606 9999