

November 26, 2020

Bekem Infra Projects Private Limited: Rating upgraded to [ICRA]A (Stable) from [ICRA]A- (Positive); Rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs crore)	Rating Action
Fund-based Cash Credit	65.00	45.00	[ICRA]A (Stable); upgraded from [ICRA]A- (Positive)
Non-fund Based Bank Guarantee	255.00	230.00	[ICRA]A (Stable); upgraded from [ICRA]A- (Positive)
Unallocated Limits	130.00	225.00	[ICRA]A (Stable); upgraded from [ICRA]A- (Positive)
Total	450.00	500.00	

**Instrument details are provided in Annexure-1*

Rationale

The rating upgrade for Bekem Infra Projects Private Limited (BIPPL) takes into account higher than expected growth in operating income (OI) of ~60% during FY2020 backed by healthy execution of irrigation projects in Maharashtra and Telangana and railway projects in Andhra Pradesh. Overall, OI grew at a CAGR of ~25% during FY2016-FY2020. Further, in H1 FY2021, due to adequate labor availability at project sites and remote location of majority of its projects, the impact of Covid-19 on the operations of the company remained low; BIPPL reported 3% y-o-y growth in revenues at Rs. 362.6 crore. The rating takes comfort from healthy order book of Rs. 2,121.2 crore as on September 30, 2020 which is 2.6 times of the OI in FY2020; providing good revenue visibility in medium term. Around 78% of the current order book comprises projects from Tapi Irrigation Development Corporation (TIDC) and Indian Railways, which are funded by the Government of India, and are witnessing healthy progress. The rating is also supported by BIPPL's healthy financial profile, characterised by stable operating margins (which has been in the range ~11.5%-12.5% during FY2016-FY2020) and limited dependence on external borrowings resulting in comfortable capital structure with TOL/TNW at 0.8 times as on September 30, 2020 and healthy coverage metrics with interest coverage of 8.9 times and Total debt/OPDBITA of 0.4 times in H1FY2021. The company has been able to realise Rs. ~295.0 crore of payments from its clients in H1 FY2021; liquidity position of BIPPL remained adequate with unencumbered cash balance of Rs. 22.1 crore as on September 30, 2020 and average utilisation of 3% of working capital limits in H1FY2021. The rating continues to draw comfort from the experienced management and BIPPL's demonstrated capabilities in executing relatively complex hydro mechanical (HM) works for irrigation dams and hydel power projects.

The rating, however, remains constrained by the moderate execution risks as ~72% of the outstanding order book is in nascent stages (with less than 25% financial progress), of which 10% are yet to commence. However, progress of Sulwade Jhampal irrigation project is satisfactory which contributes to 44% of outstanding orderbook and is ~21% completed as on September 30, 2020. The company remains exposed to geographical concentration risks as ~82% of the outstanding orderbook is from Maharashtra and Andhra Pradesh and project concentration risks as top three projects account for ~63% of orderbook. However, the execution of projects in Maharashtra, which accounts for 58% of the order book, is moving at a healthy pace. The key segments in which BIPPL is operating is irrigation projects which 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. Going forward, the management intends to participate in tenders

directly instead of subcontracted works now. This would result in increased non-fund based limit requirement; therefore, ability of the company to secure enhancements in a timely manner would remain crucial to support the growth in medium term.

Key rating drivers and their description

Credit strengths

Robust growth in operating income in FY2020: The company has witnessed higher than expected growth in OI of ~60% during FY2020 backed by healthy execution of irrigation projects in Maharashtra and Telangana and railway projects in Andhra Pradesh. Overall, OI grew at a CAGR of ~25% during FY2016-FY2020. Further, in H1 FY2021, due to adequate labor availability at project sites and remote location of majority of its projects, the impact of Covid-19 on the operations of the company remained low; BIPPL reported 3% y-o-y growth in revenues at Rs. 362.6 crore

Healthy order book position: BIPPL has healthy order book of Rs. 2,121.2 crore as on September 30, 2020 which is 2.6 times of the OI in FY2020; providing good revenue visibility in medium term. Around 78% of the current order book comprises projects from TIDC and Indian Railways, which are funded by the Government of India, and are witnessing healthy progress.

Healthy financial profile: The company's financial profile is healthy with stable operating margins (which has been in the range ~11.5%-12.5% during FY2016-FY2020) and limited dependence on external borrowings resulting in comfortable capital structure with TOL/TNW at 0.8 times as on September 30, 2020 and healthy coverage metrics with interest coverage of 8.9 times and Total debt/OPDBITA of 0.4 times in H1FY2021.

Long track record of company and promoters in executing complex hydro mechanical works: The rating continues to draw comfort from the experienced management and BIPPL's demonstrated ability in executing relatively complex hydro mechanical works for irrigation dams and hydel power projects.

Credit challenges

Orderbook exposed to moderate execution risks: BIPPL is exposed to moderate execution risks as ~72% of the outstanding order book is in nascent stages (with less than 25% financial progress), of which 10% are yet to commence. However, progress of Sulwade Jhampal irrigation project is satisfactory which contributes to 44% of outstanding orderbook and is ~21% completed as on September 30, 2020.

Geographic and project concentration risk: The company remains exposed to geographical concentration risks as ~82% of the outstanding orderbook is from Maharashtra and Andhra Pradesh and project concentration risks as top three projects account for ~63% of orderbook as on September 30, 2020. However, the execution of projects in Maharashtra, which accounts for 58% of the order book, is moving at a healthy pace.

Ability to secure timely enhancements in a timely manner would remain critical to support growth in medium term: Going forward, the management intends to participate in tenders directly instead of subcontracted works now. This would result in increased non-fund based limit requirement; therefore, ability of the company to secure enhancements in a timely manner would remain crucial to support the growth in medium term.

Vulnerable to external factors: The key segments in which BIPPL is operating is irrigation projects which 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.

Liquidity position: Adequate

The liquidity position of the BIPPL is adequate, with unencumbered cash balance of Rs. 22.1 crore and undrawn working capital limits of Rs. 40.5 crore as on September 30, 2020. The company has debt repayment obligation of Rs. 25.6 crore in FY2021, which can be comfortably serviced through estimated cash flow from operations. The average utilisation of fund-based facilities during November 2019 to October 2020 remained low at 29.5%. The company is expected to incur debt-funded capex of around Rs. 12 crore - Rs. 15 crore during FY2021 and FY2022 towards purchase of construction equipment.

Rating sensitivities

Positive triggers – The crystallisation of scenarios for a rating upgrade is unlikely in the medium term. However, the rating might be upgraded if there is significant increase in scale of operations and profitability, improvement in geographical and project diversification with no further elongation in cash conversion cycle.

Negative triggers - Negative pressure on BIPPL's rating may arise if there is lower than anticipated billing leading to decline in revenues/profitability and/or significant elongation in working capital cycle. Specific credit metrics that would lead to downgrade will include TOL/TNW increasing beyond 1.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Methodology for Construction Entities Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	Consolidated (refer Annexure 2)

About the company

Setup by Sarat Babu Bollineni and Krishna Mohan Bollineni as a proprietorship concern (M/s B. Krishna Mohan Engineers & Contracts), Bekem Infra Projects Private Limited was started in 1994 and is 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 during September 2008. 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 few years, the company also diversified into roads, railway bridges and canal work by executing projects on a direct and sub-contract basis across different states.

Key financial indicators

	FY2019	FY2020	H1 FY2021
	Audited	Audited	Provisional
Operating Income (Rs. crore)	504.2	805.2	362.6
PAT (Rs. crore)	23.3	45.8	20.8
OPBDIT/OI (%)	12.2%	11.7%	11.1%
PAT/OI (%)	4.6%	5.7%	5.7%
Total Outside Liabilities/Tangible Net Worth (times)	1.5	1.0	0.8
Total Debt/OPBDIT (times)	1.6	0.5	0.4
Interest Coverage (times)	3.6	5.7	8.9

Source: BIPPL, ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. Crore)	Amount Outstanding (Rs. Crore)	Date & Rating	Date & Rating in FY2020	Date & Rating in FY2019		Date & Rating in FY2018
					26-November-2020	7-February-2020	12-October-2018	8-October-2018	5-March-2018
1	Cash Credit	Long Term	45.00	45.00	[ICRA]A (Stable)	[ICRA]A- (Positive)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
2	Bank Guarantee	Long Term	230.00	230.00	[ICRA]A (Stable)	[ICRA]A- (Positive)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
3	Unallocated	Long Term	225.00	225.00	[ICRA]A (Stable)	[ICRA]A- (Positive)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	-	9.75%	-	45.00	[ICRA]A (Stable)
NA	Bank Guarantee	-	-	-	230.00	[ICRA]A (Stable)
NA	Unallocated	-	-	-	225.00	[ICRA]A (Stable)

Source: BIPPL

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Bekem Engineering Pvt. Ltd.	60%	Full Consolidation

ANALYST CONTACTS

Shubham Jain

+91 124 4545306

shubhamj@icraindia.com

Rajeshwar Burla

+91 40 4067 6527

rajeshwar.burla@icraindia.com

Abhishek Lahoti

+91 40 4067 6534

abhishek.lahoti@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:

+91-9354738909 (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

© Copyright, 2020 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents