September 30, 2022

# Commtel Networks Private Limited: Ratings upgraded to [ICRA]A-/ [ICRA]A2+; outlook revised to Stable

## Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| **Long Term Fund-Based Limits** | 63.00 | 80.00 | [ICRA]A-(Stable); upgraded from [ICRA]BBB+(Positive) |
| **Long-Term/Short-Term Interchangeable Limits*** | (55.00) | (80.00) | [ICRA]A-(Stable); upgraded from [ICRA]BBB+(Positive)/[ICRA]A2+; upgraded from [ICRA] A2 |
| **Short-term Non-fund Based Limits** | 17.00 | - | |
| **Total** | **80.00** | **80.00** | |

**Instrument details are provided in Annexure-1*

## Rationale

ICRA has taken a consolidated view on Commtel Networks Private Limited (CNPL) and its UAE-based subsidiary Commtel Networks FZC (CNFZC) while assigning the credit ratings, given their common management and significant operational linkages.

The upgrade of the ratings takes into consideration CNPL's healthy order book position, offering comfortable revenue visibility. The order book position improved to around Rs. 540 crore as on date, which is likely to translate into comfortable revenue growth, going forward. The ratings take comfort from the company's healthy financial profile, reflected in a comfortable capital structure owing to its strong tangible net worth and healthy debt protection metrics, given the relatively low debt levels. The ratings take into account the company's established operational track record in executing turnkey projects and the promoter's vast experience in the industry. The company has established relations with reputed customers in India and overseas, which ensure repeat orders for the company.

The ratings are, however, constrained by CNPL's moderate scale of operations, its high customer and sectoral concentration risks as almost 80-90% of the company's revenue is generated from the oil and gas sector and the resultant susceptibility of revenues and profits to any slowdown in investments in this sector. The ratings continue to factor in the high working capital intensity owing to the build-up of debtor and stock position during year-end, which is largely on account of the sizeable revenue bookings in the last quarter of the fiscal.

## Key rating drivers and their description

### Credit strengths

**Extensive track record in delivering turnkey telecommunications and surveillance solutions** – CNPL is managed by Mr. Shriprakash Pandey and other key personnel who have experience of over three decades in delivering converged telecommunication systems and related solutions to customers in various sectors, such as oil and gas, power and transportation. The company has executed projects in India and overseas.

**Established relationships with reputed customers** – The company's customer base consists of various reputed companies in the oil and gas industry and established engineering, procurement and construction (EPC) players in the domestic and international market. There has been regular order inflow from existing customers and the company derives majority (~90%)

of the revenues from them. Further, with the successful execution of contracts for various EPCs, the company has been able to establish itself as a preferred vendor and thus execute projects across geographies where these players are present.

**Financial risk profile characterised by healthy profit margin, comfortable capital structure and strong coverage indicators**– At a consolidated level, the operating profit has remained steady in a range of 15-17% during the period from FY2018 to FY2022. The healthy cash accruals and low reliance on external borrowings have resulted in a comfortable capital structure. The gearing stood at 0.24 times as on March 31, 2022 (0.17 times as on March 31, 2021). The company's debt protection metrics have also remained healthy, reflected in the operating profit/interest of 5.61 times (7.19 times in FY2021), net cash accruals/total debt of 58% (101% in FY2021) and total debt/operating profit of 1.38 times (0.82 times in FY2021) in FY2022.

**Strong order inflow offers comfortable revenue visibility in the medium term–** ICRA expects the company to report a steady revenue growth on the back of regular order inflow from the oil and gas industry along with additional growth from the new sub-segment of solar EPC and the new division of artificial intelligence digital transformation. The company had an unexecuted order book of Rs. 256.7 crore as on March 31, 2022, against an unexecuted order book of Rs. 172.4 crore as on March 31, 2021. The unexecuted order book of Rs. 256.7 crore as on March 31, 2022 was 0.97 times of the FY2022 revenue, indicating a healthy order book position. As of date, the order book stands at ~Rs. 540 crore.

## Credit challenges

**High customer and sectoral concentration risks** – The company's operations remain exposed to high customer concentration risk with the top five customers accounting for 68% of the revenues in FY2022. In addition, given the company's high reliance on the oil and gas sector (contributing ~ 90% to the total revenues), its revenues and profit margin remain susceptible to any slowdown in investments in this sector.

**Projects awarded through competitive bidding restrict revenue growth** – Commtel faces competition from companies operating on diverse business models which restricts its revenue growth. The company's hit ratio in FY2022 was 45% compared with 34% in FY2021.

**High working capital intensity –** The company's net working capital intensity, reflected in its net working capital/operating income, was elevated due to high year-end debtor and inventory days. The net working capital intensity was 69% in FY2022 and 58% in FY2021. As the company generates ~50-60% of the sales in the last quarter of the fiscal, the debtors remain high. Nevertheless, ICRA notes that majority of these are less than 60 days. The inventory days stood at 110 days in FY2022 and 81 days in FY2021.

## Liquidity position: Adequate

The company's liquidity is adequate, reflected in the free cash and bank balance of ~Rs. 2.01 crore in the Indian entity and Rs. ~60.86 crore in its subsidiary as on March 31, 2022. Further, the company's average fund-based utilisation limit in the last 15 months ended June 30, 2022 stood at 84%, with average undrawn limits of Rs. ~12.0 crore. ICRA also notes that the total debt mainly includes working capital borrowings, and it does not have any repayment obligation or any major capex plans. While the working capital requirement remains high for the company, the healthy accruals generated by the company are expected to meet the incremental requirements with increasing revenues.

## Rating sensitivities

**Positive factors –** The rating could be upgraded if the company reports healthy revenue growth on the back of regular order inflows while maintaining its profit margin. An improvement in the working capital intensity through faster realisation of receivables could also result in an upgrade

**Negative factors –** The rating could be downgraded if the company witnesses a considerable decline in sales, weakening of profitability or deterioration in liquidity position.

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable rating methodologies** | Corporate Credit Rating Methodology |
| **Parent/Group Support** | Not applicable |
| **Consolidation/Standalone** | For arriving at the ratings, ICRA has considered the consolidated financials of CNPL mentioned in Annexure-2. |

## About the company

CNPL, incorporated in 1998, is a turnkey provider of converged communication, surveillance and related technology solutions to customers in the oil and gas, power, transportation, mining and related sectors. It designs, builds, integrates and manages dedicated networks over optical fibre, radio or copper media. The company has deployed more than 1,14,000 km of telecommunication network across sectors. CNPL also has a UAE-based subsidiary, Commtel Networks FZC, through which it executes orders based in the Middle East and the African (MEA) region.

In FY2021, the company reported a net profit of Rs. 31.19 crore on an OI of Rs. 267.36 crore, compared to a net profit of Rs. 23.04 crore on an OI of Rs. 210.35 crore in the previous year. As per the provisional results, the company has reported a net profit of Rs. 27.64 crore on an OI of Rs. 262.92 crore in FY2022.

### Key financial indicators (audited)

| GMMPL Consolidated | FY2021 | FY2022 |
|---|---|---|
| **Operating income (Rs. crore)** | 267.36 | 262.92 |
| **PAT (Rs. crore)** | 31.19 | 27.64 |
| **OPBDIT/OI (%)** | 16.25 | 15.57 |
| **PAT/OI (%)** | 11.67 | 10.51 |
| **Total outside liabilities/Tangible net worth (times)** | 0.39 | 0.41 |
| **Total debt/OPBDIT (times)** | 0.82 | 1.38 |
| **Interest coverage (times)** | 7.19 | 5.61 |

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation*

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for past three years

<table>
<tr><th rowspan="3"></th><th rowspan="3">Instrument</th><th colspan="4">Current rating (FY2023)</th><th colspan="4">Chronology of rating history for the past 3 years</th></tr>
<tr><th rowspan="2">Type</th><th rowspan="2">Amount rated (Rs. crore)</th><th rowspan="2">Amount outstanding (Rs. crore)</th><th>Date & rating in</th><th>Date & rating in FY2022</th><th>Date & rating in FY2021</th><th colspan="2">Date & rating in FY2020 & FY2019</th></tr>
<tr><th>September 30, 2022</th><th>June 22, 2021</th><th>April 8, 2020</th><th>March 28, 2019</th><th>December 31, 2018</th></tr>
<tr><td>1</td><td>Fund-based Limits</td><td>Long-term</td><td>80.00</td><td>-</td><td>[ICRA]A-(Stable)</td><td>[ICRA]BBB+ (Positive)</td><td>[ICRA]BBB+ (Stable)</td><td>[ICRA]BBB+ (Positive)</td><td>[ICRA]BBB+ (Positive)</td></tr>
<tr><td>2</td><td>Interchangeable Limits</td><td>Long-term and short term</td><td>(80.00)*</td><td>-</td><td>[ICRA]A-(Stable)/[ICRA]A2+</td><td>[ICRA]BBB+ (Positive) / [ICRA]A2</td><td>[ICRA]BBB+ (Stable) / [ICRA]A2</td><td>[ICRA]BBB+ (Positive) / [ICRA]A2</td><td>[ICRA]BBB+ (Positive) / [ICRA]A2</td></tr>
<tr><td>3</td><td>Non Fund-based Limits</td><td>Short-term</td><td>-</td><td>-</td><td>-</td><td>[ICRA]A2</td><td>[ICRA]A2</td><td>[ICRA]A2</td><td>[ICRA]A2</td></tr>
</table>

## Complexity level of the rated instrument

| Instrument | Complexity Indicator |
|---|---|
| Fund-based Limits | Simple |
| Non-fund Based Limits | Very Simple |
| Interchangeable Limits* | Simple/very simple |

**Includes cash credit, letter of credit, WCDL, export finance, bank guarantees and intra-citi SBLC*

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's 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 | Long-term, Fund-based Limits | - | - | - | 80.00 | [ICRA]A-(Stable) |
| NA | Long-term/Short-term Interchangeable Limits* | - | - | - | (80.00) | [ICRA]A-(Stable)/[ICRA]A2+ |

***Source:*** *Company*

**xx Bank- Rs. 50 crore sub limits are interchangeable between fund based and non-fund-based limits such that the maximum utilization of cash credits cannot exceed Rs. 50.00 crore, maximum utilisation of Working capital demand loan (WCDL) cannot exceed Rs. 45.00 crore, total utilisation of Export finance cannot exceed Rs. 35.00 crore and total utilisation of Bank guarantees should not exceed Rs. 20.00 crore, Inter-citi SBLC cannot exceed Rs. 15.00 crore.*

*yy Bank- Rs. 25 crore sublimits re interchangeable between fund based and non-fund-based limits such that the maximum utilization of Working capital demand loan (WCDL) cannot exceed Rs. 17.00 crore, total utilisation of Bank guarantees should not exceed Rs. 25.00 crore & total utilisation of letter of credit cannot exceed Rs. 25.00 crore.*

## Annexure-2: List of entities considered for consolidated analysis- Not applicable

| Company Name | Ownership | Consolidation Approach |
|---|---|---|
| Commtel Networks FZE | 100.00% | Full Consolidation |

***Source:*** *CNPL*

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## About ICRA Limited:

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For more information, visit www.icra.in

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## Branches




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