

November 10, 2023

## Bekem Infra Projects Private Limited: Rating reaffirmed; rated amount enhanced

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term: Fund-based – Cash credit	93.00	120.00	[ICRA]A (Stable); reaffirmed and assigned for enhanced amount
Long-term: Non-fund based – Bank guarantee	507.00	667.00	[ICRA]A (Stable); reaffirmed/assigned for enhanced amount
Long-term: Non-fund based – Letter of credit	-	13.00	[ICRA]A (Stable); assigned
Long-term: Unallocated	250.00	-	-
Long-term: Proposed fund-based limits	-	25.00	[ICRA]A (Stable); assigned
Long-term: Proposed non-fund based limits	-	100.0	[ICRA]A (Stable); assigned
<b>Total</b>	<b>850.00</b>	<b>925.00</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The rating reaffirmation for Bekem Infra Projects Private Limited (BIPPL) factors in the healthy order book position of Rs. 3,594.4 crore as on July 31, 2023 providing medium-term revenue visibility. Its operating income (OI) grew by 32% to Rs. 1,009.2 crore in FY2023 and is expected to increase to more than Rs. 1,100 crore in FY2024, driven by improved order execution. The rating favourably considers the comfortable debt coverage metrics with interest coverage of 8.1 times and Total debt/OPBDIT of 1.7 times in FY2023. The same is likely to remain healthy going forward. The rating considers adequate liquidity position with free cash and bank balances of Rs. 43.0 crore as on August 31, 2023 and cushion in working capital limits supported by timely receipts of payments with majority of the projects funded by the Central Government departments and assistance from financial institutions. Further, the order book is geographically diversified with presence in Maharashtra, Odisha, Telangana, Karnataka and Andhra Pradesh. The rating continues to draw comfort from the experienced management, BIPPL's demonstrated capabilities in executing relatively complex hydro mechanical (HM) works for irrigation dams and hydel power projects, as well as its healthy profitability margins.

At present, BIPPL is executing two hybrid annuity mode (HAM) road projects in joint venture (JV) with Sri Avantika Contractors (I) Ltd (SACIL) and another HAM road project in JV with Max Infra (I) Ltd (MIIL, rated [ICRA]A-/Stable). It has a total equity commitment of Rs. 205.8 crore towards the three HAM projects during FY2023-FY2025. It has already infused Rs. 130.8 crore of equity till July 2023. The company has provided joint and several corporate guarantees towards the two HAM projects, where SACIL is the JV partner till the receipt of the first annuity. Given the relatively modest credit profile of its JV partner, ICRA in its analysis has built in the balance equity requirement of these two HAM projects (Rs. 50.1 crore) to be funded by BIPPL. With healthy profitability margins and cash flows from operations, BIPPL is adequately placed to infuse the requisite equity for these three projects. Going forward, any significant increase in development projects resulting in higher-than-expected equity commitment, which adversely affects its liquidity position, will remain a key monitorable.

The rating remains constrained by the moderate execution risks as ~49% of the outstanding order book is in the nascent stages (with less than 25% financial progress), of which work is yet to commence for 13% of the orders as most of the projects were received recently. Further, the project concentration risk is high as top three projects accounted for ~42% of the order book as on July 31, 2023. Any delay in execution of projects could impact its revenues and profitability and remains a key rating monitorable. The company is exposed to segmental concentration risk with top two segments constituting ~90% of the order book as on July 31, 2023. The rating is also constrained by the increase in leverage, indicated by TOL/TNW, to 1.7 times as on March 31, 2023 on account of debt-funded capex, sizeable creditors and mobilisation advances. Adjusted for unencumbered

cash and liquid investments, the net TOL/TNW<sup>1</sup> remained high at 1.5 times as on March 31, 2023. The debtors more than 180 days increased to Rs. 106.9 crore as on September 30, 2023 from Rs. 11.9 crore as on March 31, 2022 owing to delay in realisation of final bills and timely realisation of these remains a key rating monitorable. The likely correction in receivable as well as creditors in the current fiscal is expected to result in moderation in leverage metrics. Going forward, the company's ability to judiciously manage its working capital cycle and consequent impact on leverage metrics, liquidity position and cash flow from operations remains a key monitorable.

The Stable outlook reflects ICRA's belief that the company would benefit from its healthy order book position and execution, and timely receipt of payments from its key customers.

## Key rating drivers and their description

### Credit strengths

**Healthy order book position** – BIPPL has a healthy order book of Rs. 3,594.4 crore as on July 31, 2023, which is 3.6 times of the OI in FY2023, providing medium-term revenue visibility. Its OI grew by 32% to Rs. 1,009.2 crore in FY2023 and is expected to increase to more than Rs. 1,100 crore in FY2024, supported by improved order execution.

**Geographically diversified order book** – The company has presence in Maharashtra, Odisha, Telangana, Karnataka, and Andhra Pradesh. Out of the outstanding order book as on July 31, 2023, top three states (Odisha, Maharashtra and AP) account for 75% of the order book. Further, around 70% of the order book is funded by Central Government agencies or financial institutions resulting in timely payments and supporting its working capital position. Although receivables more than six months increased in the past one year, these pertain to final bills and timely realisation of the same remains a key rating monitorable.

**Long track record in executing complex HM works and healthy operating profits** – The management is experienced in executing relatively complex HM works for irrigation dams and hydel power projects. This has resulted in healthy profit margins of above 15% during the past three years.

### Credit challenges

**Sizeable equity commitments for HAM projects** – At present, BIPPL is undertaking three HAM projects and has a total equity commitment of ~Rs. 205.7 crore. Of this, it has already infused ~Rs. 130.8 crore as on July 31, 2023 and the balance Rs. 75.9 crore of equity is likely to be infused over the next one year. The estimated cash flow from operations, along with the existing cash balances are expected to be sufficient for the equity commitments towards these HAM projects. ICRA has assumed the balance equity requirement of these two HAM projects to be funded by BIPPL as it has provided joint and several corporate guarantee towards the two HAM projects, where SACIL is the JV partner, till the receipt of the first annuity. However, any significant increase in equity commitments due to the addition of new HAM projects would remain a monitorable.

**Increase in leverage due to debt-funded capex** – The company incurred debt-funded capex of Rs. 214.0 crore in FY2023. Further, it partly funded its working capital requirements through creditors and mobilisation advances resulting in high TOL/TNW of 1.7 times as on March 31, 2023. Adjusted for free cash balances, the same remained higher at 1.5 times. With repayment of debt, the net TOL/TNW is expected to decline in the near term.

**Order book exposed to moderate execution and high segment concentration risks** – BIPPL is exposed to moderate execution risks as ~42% of the outstanding order book is in the nascent stages (with less than 25% financial progress), of which 13% is yet to commence billing as on July 31, 2023. Further, the company is undertaking three road HAM projects. Its ability to complete these projects within the scheduled timelines and budgeted costs remains a key rating monitorable. The company

<sup>1</sup> Net TOL/TNW= Total outside liabilities- Unencumbered cash balances

remains exposed to segmental concentration risk with top two segments accounting for ~90% of the order book as on July 31, 2023.

## Liquidity position: Adequate

BIPPL's liquidity position is adequate, with unencumbered cash balance of Rs. 43.0 crore as on August 31, 2023 and cushion in working capital limits. It has debt repayment obligation of Rs. 70.0 crore in FY2024. The company expects to infuse Rs. 58.0 crore as equity commitments for HAM projects in FY2024. The same can be comfortably met through its estimated cash flow from operations. It is likely to incur a capex of Rs.70.0 crore in FY2024, which will be funded by a mix of debt and internal accruals.

## Rating sensitivities

**Positive factors** – The rating might be upgraded if there is diversification in order book, along with significant increase in scale of operations as well as profitability margins resulting in improvement in debt coverage metrics and liquidity position on a sustained basis.

**Negative factors** – Pressure on the rating may arise if there is a material decline in revenues or earnings resulting in deterioration of debt coverage indicators. Significant rise in investments towards BOT projects, or a sustained elongation in working capital cycle impacting its liquidity position could also put pressure on the rating. Specific credit metric that would lead to downgrade will include Net TOL/TNW increasing beyond 1.3 times on a prolonged basis.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Methodology for Construction Entities</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the rating, ICRA has done limited consolidation of HAM special purpose vehicles (SPVs) factoring in the equity commitments and support towards meeting any cash flow mismatches. Refer Annexure II

## About the company

Bekem was established by Mr. Sarat Babu Bollineni and Mr. Krishna Mohan Bollineni which was initially as a proprietorship concern (M/s B. Krishna Mohan Engineers & Contracts) in 1994 and is based out of Hyderabad. It was converted into a partnership firm with effect from April 1, 2008 and subsequently converted into a private limited company and changed its name to Bekem Infra Projects Private Limited (BIPPL) with effect from September 15, 2008. The company executes HM and civil construction works on a subcontract basis for engineering, procurement and construction (EPC) contractors in the irrigation, railways and hydropower sector. BIPPL has its own fabrication unit for carrying out HM works of irrigation projects. In the last few years, the company diversified into roads and canal work by executing projects on a sub-contract basis across different states. At present, it has three under-construction HAM projects, which are likely to be completed by FY2025.

## Key financial indicators (audited)

Standalone	FY2022	FY2023
Operating income	762.8	1009.2
PAT	74.6	90.4
OPBDIT/OI	15.5%	15.6%
PAT/OI	9.8%	9.0%
Total outside liabilities/Tangible net worth (times)	1.1	1.7
Total debt/OPBDIT (times)	0.7	1.7
Interest coverage (times)	11.7	8.1

Source: ICRA Research, Company; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

### Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of Mar 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Oct 31, 2023	Dec 20, 2022	Sep 30, 2021	Nov 26, 2020
1 Fund-based – Cash credit	Long-term	120.00	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
2 Non-fund based – Bank guarantee	Long-term	667.00	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
3 Non-fund based – Letter of credit	Long-term	13.00	-	[ICRA]A (Stable)	-	-	-
4 Proposed fund-based limits	Long-term	25.00	-	[ICRA]A (Stable)	-	-	-
5 Proposed non-fund based limits	Long-term	100.00	-	[ICRA]A (Stable)	-	-	-
6 Unallocated limit	Long-term	-	-	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)

### Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based – Cash credit	Simple
Non-fund based – Bank guarantee	Very Simple
Non-fund based – Letter of credit	Very Simple
Proposed fund-based limits	Simple
Proposed non-fund based limits	Very Simple

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: [Click Here](#)

## Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based – Cash credit	NA	NA	-	120.00	[ICRA]A (Stable)
NA	Non-fund based – Bank guarantee	NA	NA	-	667.00	[ICRA]A (Stable)
NA	Non-fund based – Letter of credit	NA	NA	-	13.00	[ICRA]A (Stable)
NA	Proposed fund-based limits	NA	NA	-	25.00	[ICRA]A (Stable)
NA	Proposed non-fund based limits	NA	NA	-	100.00	[ICRA]A (Stable)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

## Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Bekem Engineering Pvt. Ltd.	60.00%	Full Consolidation
Jangareddygudem Projects Private Limited	51.00%	Limited Consolidation
Rajamahendravaram Greenfield Highways Private Limited	51.00%	Limited Consolidation
Eastern Ghats Highway Project Pvt. Ltd	50.00%	Limited Consolidation

Source: BIPPL

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