November 30, 2023

Commtel Networks Private Limited: Ratings reaffirmed and assigned for enhanced amount

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based limits	80.00	105.00	[ICRA]A- (Stable); reaffirmed/ assigned for enhanced amount
Long-term/Short-term interchangeable limits	(80.00)	(105.00)	[ICRA]A- (Stable)/[ICRA]A2+; reaffirmed/ assigned for enhanced amount
Long-term/Short-term unallocated limits	-	50.00	[ICRA]A- (Stable)/ [ICRA]A2+; assigned
Total	**80.00**	**155.00**	

**Instrument details are provided in Annexure-I*

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 reaffirmation of the ratings follows ICRA's expectations of consistent revenue growth on the back of a healthy order book position along with sustenance of a strong credit profile over the medium term. The order book position improved to around Rs. 776 crore as on September 30, 2023, which is likely to translate into comfortable revenue growth, going forward. The ratings take comfort from the company's strong financial profile, reflected in its healthy profit margin, comfortable capital structure and satisfactory debt protection metrics.

The ratings consider 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.

The ratings are, however, constrained by CNPL's moderate scale of operations, its high customer and sectoral concentration risks as 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 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 as there are sizeable revenue bookings in the last quarter of a fiscal.

The Stable outlook on the rating reflects ICRA's expectation of a consistent growth in top line and sustenance of healthy profitability on the back of a satisfactory unexecuted order book position as well as the potential growth in the same, going forward, on account of new customer additions, along with an uptick in investment activity in the sector.

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 16-19% during the period from FY2019 to FY2023. The healthy cash accruals and low reliance on external borrowings have resulted in a comfortable capital structure. The gearing stood at 0.25 times as on March 31, 2023 (0.30 times as on March 31, 2022). The company's debt protection metrics have also remained healthy, reflected in the operating profit/interest of 7.88 times (5.25 times in FY2022), net cash accruals/total debt of 84% (50% in FY2022) and total debt/operating profit of 1.01 times (1.58 times in FY2022) in FY2023.

Strong order inflow offers medium-term revenue visibility – 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. 442.32 crore as on March 31, 2023, against an unexecuted order book of Rs. 257.63 crore as on March 31, 2022. The unexecuted order book of Rs. 442.32 crore as on March 31, 2023 was 1.61 times of the FY2023 revenue, indicating a healthy order book position. As of September 30, 2023, the order book stands at ~Rs. 776.73 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 57% of the revenues in FY2023. In addition, given the company's high reliance on the oil and gas sector (contributing ~ 80-90% 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 FY2023 and H1 FY2024 was 57% and 77%, respectively, compared with 45% in FY2022.

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 57% in FY2023 and 68% in FY2022. 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 114 days in FY2023 and 110 days in FY2022.

Liquidity position: Adequate

The company's liquidity is adequate, reflected in the free cash and bank balance of ~Rs. 7.52 crore in the Indian entity and Rs. ~93.61 crore in its subsidiary as on March 31, 2023. Further, the company's average fund-based utilisation limit in the last 17 months ended August 31, 2023, stood at 76%, with average undrawn limits of Rs. ~14.0 crore. ICRA also notes that the total debt mainly includes working capital borrowings, and it does not have 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 along with an improvement in liquidity at the standalone level.

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

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 FY2023, the company reported a net profit of Rs. 56.11 crore on an OI of Rs. 380.83 crore, compared to a net profit of Rs. 26.49 crore on an OI of Rs. 263.59 crore in the previous year. As per the provisional results, the company has reported a net profit of Rs. 14.11 crore on an OI of Rs. 195.23 crore in H1 FY2024.

Key financial indicators (audited)

Consolidated	FY2022	FY2023
Operating income	263.59	380.83
PAT	26.49	56.11
OPBDIT/OI	26.49	56.11
PAT/OI	26.49	56.11
Total outside liabilities/Tangible net worth (times)	0.47	0.60
Total debt/OPBDIT (times)	1.58	1.01
Interest coverage (times)	5.25	7.88

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	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Sep 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Nov 30, 2023	Sep 30, 2022	Jun 22, 2021	Apr 8, 2020
1	**Fund-based limits**	Long term	105.00	--	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**	**[ICRA]BBB+ (Positive)**	**[ICRA]BBB+ (Stable)**
2	**Interchangeable limits**	Long term and short term	(105.00)	--	**[ICRA]A- (Stable)/ [ICRA]A2+**	**[ICRA]A- (Stable)/ [ICRA]A2+**	**[ICRA]BBB+ (Positive)/ [ICRA]A2**	**[ICRA]BBB+ (Stable)/ [ICRA]A2**

3	**Non-fund based limits**	Short term	--	--	**-**	**-**	**[ICRA]A2**	**[ICRA]A2**
4	**Unallocated limits**	Long term and short term	50.00	--	**[ICRA]A-(Stable)/ [ICRA]A2+**	**-**	**-**	**-**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term fund-based limits	Simple
Long-term/Short-term interchangeable limits	Very Simple
Long-term/Short-term unallocated limits	NA

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	Long term fund-based limits	-	-	-	105.00	[ICRA]A- (Stable)
NA	Long-term/Short-term interchangeable limits*	-	-	-	(105.00)	[ICRA]A- (Stable)/[ICRA]A2+
NA	Long-term/Short-term unallocated limits	-	-	-	50.00	[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 utilisation 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 sub-limits re interchangeable between fund-based and non-fund based limits such that the maximum utilisation 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.

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
Commtel Networks FZE	100.00%	Full Consolidation

Source: Company

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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.

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