

November 04, 2024

## 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	120.00	180.00	[ICRA]A (Stable); Reaffirmed and assigned for enhanced amount
Long-term – Non-Fund-based – Bank Guarantee	667.00	957.00	[ICRA]A (Stable); Reaffirmed and assigned for enhanced amount
Long-term –Non-Fund-based – Letter of Credit	13.00	13.00	[ICRA]A (Stable); Reaffirmed
Long Term – Proposed Fund Based Limits	25.00	-	-
Long Term – Proposed Non-Fund Based Limits	100.00	-	-
<b>Total</b>	<b>925.00</b>	<b>1,150.00</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The rating reaffirmation of Bekem Infra Projects Private Limited (BIPPL) factors in healthy revenue growth of 19% to Rs. 1,209.9 crore in FY2024 and the expected sustenance of the same in the medium term. The anticipated revenue growth is supported by the company's order book (OB) position of Rs. 2,749.9 crore as on July 31, 2024 and the projected addition of Rs. 1,540 crore of engineering, procurement and construction (EPC) works for the newly awarded hybrid annuity mode (HAM) projects. The rating also considers the geographically diversified order book, with the entity's presence in eight states and moderately diversified projects as well as clients. The company's top 5 projects and top 3 clients account for 55% and 48% of the overall order book, respectively, as on July 31, 2024. The rating also takes comfort from the entity's experienced management, its demonstrated capabilities in executing relatively complex hydro-mechanical (HM) works for irrigation dams and hydel power projects and the healthy profitability margins. The margins are expected to remain above 15% in the medium term. The rating is also supported by BIPPL's adequate liquidity position with free cash and bank balances of Rs. 50.1 crore as on September 30, 2024 and a cushion in working capital limits.

The rating, however, is constrained by the high working capital intensity of 25% in FY2024 on account of elevated inventory levels due to bills pending for certification. Further, the company incurred a capex of Rs. 214.6 crore in FY2023 and Rs. 89.4 crore in FY2024, which were majorly funded by term debt. Consequently, the company's debt levels increased to Rs. 314.3 crore as on March 31, 2024 from Rs.78.1 crore as on March 31, 2022. The interest coverage deteriorated to 4.2 times in FY2024 from 11.9 times in FY2022 on account of a significant increase in interest expenses despite healthy profit margins. With sizeable debt repayment in FY2025, the interest coverage is expected to improve to over 5 times from FY2025 onwards.

The company is also exposed to high segmental concentration risk, with its top two segments (irrigation and roads) accounting for 80% of the outstanding order book as on July 31, 2024. It also exposed to moderate execution risks, as ~31% of the outstanding order book is in the nascent stages (with less than 25% financial progress), and work has yet to commence on 10% of the orders, as most projects were recently received. Any delay in project execution could impact the company's revenues and profitability, which remains a key rating monitorable.

BIPPL has a total of six HAM projects with an equity commitment of Rs. 441.8 crore over FY2023-FY2027. As on March 31, 2024, BIPPL has already infused Rs. 143.0 crore, leaving a sizeable commitment of Rs. 298.8 crore to be met over FY2025-FY2027 (Rs. 119.8 crore in FY2025, Rs. 92.0 crore in FY2026 and Rs. 87.0 crore in FY2027). The company is adequately placed

to infuse the balance equity from available liquidity and cash flow from operations. However, debt levels are expected to increase with higher utilisation of working capital limits in the medium term.

In addition, ICRA has considered (JV) partner's remaining equity commitments of Jangareddygudem Projects Private Limited (JPPL) and Rajamahendravaram Greenfield Highway Private Limited (RGHPL) (totalling Rs. 35.6 crore as on July 31, 2024) to be funded by BIPPL in its base case assumptions as well as BIPPL's equity commitment for its share in the three recently awarded HAM projects. These projects, received in JV with DHD Infracon Private Limited, require timely equity infusion from the JV partner, which is critical from a credit perspective. Any significant addition of new BOT projects or delays in equity infusion from JV partners, leading to higher equity commitments and adversely impacting the company's liquidity would remain a key rating monitorable. Moreover, BIPPL is also exposed to project implementation risks for these HAM projects.

The Stable outlook reflects ICRA's belief that the company would benefit from its healthy order book position and proven execution track record, which is expected to support its business going forward.

## Key rating drivers and their description

### Credit strengths

**Adequate order book position provides medium-term revenue visibility** – The company's order book position stood healthy at Rs. 2,749.9 crore as on July 31, 2024 with the addition of Rs. 1,540 crore of EPC (Engineering, Procurement and Construction) works for the newly awarded HAM projects. The current order book, translating OB to operating income (OI) of 2.3 times, provides medium-term revenue visibility. Revenues witnessed strong growth over the last five years, at a CAGR of 19.1% to Rs. 1,209.9 crore in FY2024 from Rs. 805.2 crore in FY2020, driven by an improved order book position and project execution. The revenue growth is expected to sustain in the medium term supported by the order book position.

**Diversified order book in terms of geography, projects and clients** – The order book is diversified geographically across Odisha, Maharashtra, Andhra Pradesh, Telangana, Karnataka, Jharkhand, Tamil Nadu and Uttar Pradesh. It is also moderately diversified in terms of projects and clients, with the top 5 projects accounting for 55% and the top 3 clients accounting for 48% of the order book as on July 31, 2024.

**Established track record in executing HM works and healthy operating profits** – BIPPL has a long track record spanning over three decades in executing complex hydro-mechanical works for irrigation and hydel power projects. The operating margins stood healthy at above 15% for the past four years, driven by HM and structural works, which are niche areas and are expected to remain above 15% in the near term, supported by a healthy share of revenues from HM projects.

### Credit challenges

**Higher working capital intensity and debt-funded capex weakening coverage metrics** – The working capital intensity increased to 25% in FY2024 from 16% in FY2023, mainly on account of higher inventory levels due to bills pending certification at the year-end. Further, the company incurred a capex of Rs. 214.6 crore in FY2023 and Rs. 89.4 crore in FY2024, which were majorly funded by term debt. Consequently, the company's debt levels increased to Rs. 314.3 crore as on March 31, 2024 from Rs. 78.1 crore as on March 31, 2022. The interest coverage deteriorated to 4.2 times in FY2024 from 11.9 times in FY2022 on account of a significant increase in interest expenses despite healthy profit margins. With sizeable debt repayment in FY2025, the interest coverage is expected to improve to over 5 times from FY2025 onwards.

**Sizeable equity commitments for HAM projects** – BIPPL has a total of six HAM projects with an equity commitment of Rs. 441.8 crore over FY2023-FY2027. As on March 31, 2024, BIPPL has already infused Rs. 143.0 crore, leaving a sizeable commitment of Rs. 298.8 crore to be met over FY2025-FY2027 (Rs. 119.8 crore in FY2025, Rs. 92.0 crore in FY2026 and Rs. 87.0 crore in FY2027). The company is adequately placed to infuse the balance equity from available liquidity and cash flow from operations. However, debt levels are expected to increase with higher utilisation of working capital limits in the medium term.

In addition, ICRA has considered (JV) partner's remaining equity commitments of Jangareddygudem Projects Private Limited (JPPL) and Rajamahendravaram Greenfield Highway Private Limited (RGHPL) (totalling Rs. 35.6 crore as on July 31, 2024) to be

funded by BIPPL in its base case assumptions as well as BIPPL's equity commitment for its share in the three recently awarded HAM projects. These projects, received in JV with DHD Infracon Private Limited, require timely equity infusion from the JV partner, which is critical from a credit perspective. Any significant addition of new BOT projects or delays in equity infusion from JV partners, leading to higher equity commitments and adversely impacting the company's liquidity would remain a key rating monitorable. Moreover, BIPPL is also exposed to project implementation risks for these HAM projects.

**Risks associated with construction sector, including sizeable non-fund-based exposure** – BIPPL is exposed to the cyclicity inherent in the construction industry and intense competition in the tender-based contract award system, resulting in the risk of volatility in order inflows, revenues, and pressure on profit margins. However, its long presence and established relationships with clients provide comfort. Most of the contracts have the provision for price variation of key raw materials such as cement and steel, which protects the entity's profitability to an extent. It is also exposed to sizeable contingent liabilities in the form of bank guarantees (BGs) (~Rs. 416.7 crore as on August 31, 2024), mainly towards performance guarantees, mobilisation advances and security deposits. Nonetheless, ICRA draws comfort from BIPPL's healthy execution track record and no invocation of guarantees in the past.

### Liquidity position: Adequate

BIPPL's liquidity position is adequate, with an unencumbered cash balance of Rs. 50.1 crore as on September 30, 2024, and a cushion in working capital limits. It has a debt repayment obligation of Rs. 120 crore and ~Rs. 120 crore of equity commitments for HAM projects in FY2025. The same can be comfortably met through the estimated cash flow from operations and cushion in working capital limits. It is likely to incur a capex of Rs. 50.0 crore in FY2025, 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 the order book, along with a significant increase in the scale of operations and profitability margins, resulting in improved 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 the deterioration of debt coverage indicators. Higher-than-expected funding (equity/ cost overrun/ operational shortfall) support towards HAM projects, or a sustained elongation in the working capital cycle, impacting its liquidity position could also exert pressure on the rating. Specific credit metrics that would lead to a downgrade will include TOL/TNW increasing beyond 1.4 times on a sustained basis.

### Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology – Construction</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

BIPPL was initially set up by Krishna Mohan Bollineni as a proprietorship concern (M/s B. Krishna Mohan Engineers & Contracts) in Hyderabad and was started in 1994. The proprietorship was converted into a partnership firm with effect from April 1, 2008, with the joining of Mr. Saratbabu Bollineni 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 is a pioneer in the design, manufacture, installation, testing and commissioning of hydro-mechanical works as well as structural and civil works on direct/subcontract basis for EPC contractors in the irrigation, buildings, railways, roads, power, defence, oil and gas segments.

#### Key financial indicators (audited)

BEKEM Standalone	FY2023	FY2024
Operating income	1,016.3	1,209.9
PAT	90.1	91.0
OPBDIT/OI	16.4%	18.0%
PAT/OI	8.9%	7.5%
Total outside liabilities/Tangible net worth (times)	1.7	1.2
Total debt/OPBDIT (times)	1.6	1.4
Interest coverage (times)	8.2	4.4

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; 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

Instruments	Current (FY2025)				Chronology of rating history for the past 3 years					
	Type	Amount Rated (Rs. crore)	FY2025		FY2024		FY2023		FY2022	
			Date	Rating	Date	Rating	Date	Rating	Date	Rating
Fund-based – Cash Credit	Long Term	180.00	04-Nov-24	[ICRA]A (Stable)	10-Nov-23	[ICRA]A (Stable)	20-Dec-22	[ICRA]A (Stable)	30-Sept-21	[ICRA]A (Stable)
Fund-based – Bank Guarantee	Long Term	957.00	04-Nov-24	[ICRA]A (Stable)	10-Nov-23	[ICRA]A (Stable)	20-Dec-22	[ICRA]A (Stable)	30-Sept-21	[ICRA]A (Stable)
Non-Fund-based – Letter of Credit	Long Term	13.00	04-Nov-24	[ICRA]A (Stable)	10-Nov-23	[ICRA]A (Stable)	-	-	-	-
Proposed Fund Based Limits	Long Term	-	-	-	10-Nov-23	[ICRA]A (Stable)	-	-	-	-
Proposed Non-Fund Based Limits	Long Term	-	-	-	10-Nov-23	[ICRA]A (Stable)	-	-	-	-
Unallocated Limits	Long Term	-	-	-	-	-	20-Dec-22	[ICRA]A (Stable)	30-Sept-21	[ICRA]A (Stable)

#### Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Cash credit	Simple
Long-term – Fund-based – Bank guarantee	Very simple
Long-term –Non-Fund-based – Letter of credit	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	NA	180.00	[ICRA]A (Stable)
NA	Fund-based – Bank Guarantee	NA	NA	NA	957.00	[ICRA]A (Stable)
NA	Non-Fund-based – Letter of Credit	NA	NA	NA	13.00	[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	BEKEM Ownership	Consolidation Approach
Global Steel Structure Private Limited	100.00%	Limited 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
Belagavi Expressways Private Limited	40.00% ^	Limited Consolidation
Badami Highways Private Limited	70.00% ^	Limited Consolidation
Aihole Expressways Private Limited	70.00% ^	Limited Consolidation

Source: BIPPL; ^- expected shareholding as per financing documents

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