July 31, 2023

Balajee Infratech and Constructions Private Limited: Ratings 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 limits	35.00	60.00	[ICRA]A- (Negative); reaffirmed/assigned
Long-term – Interchangeable limits	(15.00)	(32.00)	[ICRA]A- (Negative); reaffirmed/assigned
Long-term – Non-fund based limits	171.00	226.00	[ICRA]A- (Negative); reaffirmed/assigned
Short-term – Interchangeable limits	(15.00)	(35.00)	[ICRA]A2+; reaffirmed/assigned
Total	**206.00**	**286.00**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation/assignment of Balajee Infratech and Construction Private Limited's (BICPL) ratings favourably factor-in BICPL's healthy order book (order book to OI ratio of 3.3 times) that provides medium-term revenue visibility, adequate capital structure (TOL/TNW of 1.1 times as per FY2023 provisional financials). BICPL's order book stood at Rs. 2,224 crore as of March 2023, supported by healthy order inflows of Rs. 2,014.2 crore in FY2023. The ratings continue to draw comfort from the extensive experience of BICPL's promoters and their strong execution capabilities in various infrastructure activities, including quarrying, crushing and transportation activities in the mining segment and its reputed clientele.

The Negative outlook for the long-term rating of BICPL, however, reflects the likely moderation in its credit profile in the near term on account of deterioration in debt protection metrics. This is attributable to the moderation in operating margin, apart from increase in the order book concentration in terms of segment and clientele as on March 31, 2023. The supply of rocks, aggregates and boulders segment formed ~56% and works for roads and highways constituted ~29% of the unexecuted order book as on March 31, 2023. Further, large orders in Uttar Pradesh (60%) and Gujarat (9%) account for bulk of the order book, exposing it to geographical concentration risk. While the geographical concentration supports optimal resource deployment, its impact on the company's revenues could be severe if the region of operations is affected by unforeseen risks. It also faces high project and client concentration with the top three clients contributing 86% to the total unexecuted order book and the top five orders accounting for ~74% of the unexecuted order book as on March 31, 2023. While the scale of operations is expected to continue improving in FY2024e, a healthy recovery in operating margin and ease on working capital intensity shall remain crucial for BICPL to maintain a healthy credit profile.

The ratings are constrained by the working capital-intensive operations on account of sizable work-in-progress and receivables (inventory days of 96 days and debtor days of 84 days), reflected in NWC/OI of 31.5% in FY2023 (FY2022: 32.1%). The ratings note the stiff competition in the construction sector and the company's exposure to sizeable contingent liabilities in form of bank guarantees, mainly for contractual performance, mobilisation advance and security deposits. ICRA has taken note of the invocation of bank guarantees worth Rs. 2.36 crore by one of its clients over the last two years. As per BICPL's management, this was a one-off issue and they are in discussion with the client to amicably settle the matter. While the quantum was small and the amount was paid to the banks promptly prior to the bank making payment under the guarantee, it highlights the risks associated with bank guarantees, which is a key risk for construction entities. The ratings factor in the high execution/offtake risk as 76% of the order book as on March 31, 2023 is in the nascent stages of execution (less than 25% executed), out of which work is yet to commence for 16% of the orders. Thus, timely ramp-up in execution will remain essential for the company's revenue growth.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters; reputed clientele - The company has been involved in various infrastructure-related works since 1999 and has executed many projects across the country. BICPL is present in diversified business segments, including mining, earthwork, and supplying aggregates. The mining segment includes quarrying, crushing and transportation activities. It caters to reputed private players across construction and other industries including Larsen & Toubro Ltd. {[ICRA]A1+}, ITD Cementation India Limited {[ICRA]A (Stable)/[ICRA]A1}, Arcelor Mittal Nippon Steel India Limited, Afcons Infrastructure Limited {[ICRA]A+ (Stable)/[ICRA]A1}, among others. Over the years, the company has established strong relationships with its key customers, which has supported its revenue growth.

Healthy order book provides medium-term revenue visibility - The company received healthy fresh orders over the last five fiscals, with orders worth Rs. 2,014.2 crore in FY2023. The new orders, along with the regular order inflows of the past led to a healthy order book of Rs. 2,224 crore as on March 31, 2023. The OB/OI ratio remains healthy at 3.3 times of the operating income (OI) in FY2023 providing medium-term revenue visibility. Timely execution of these orders is critical to sustain revenue recognition going forward.

Adequate capital structure and debt coverage metrics - The company's capital structure measured by TOL/TNW, though deteriorated, is adequate at 1.1 times in FY2023 (FY2022: 0.8 times), supported by strong net worth and low dependence on external borrowings. The coverage metrics remains satisfactory with interest cover of 4.3 times and DSCR of 1.9 times in FY2023, although the coverage metrics have moderated from FY2021 level.

Credit challenges

High order book concentration - The supply of rocks, aggregates and boulders comprised ~56% of the unexecuted order book and works for roads and highways formed ~29%. Further, large orders in Uttar Pradesh (60%) and Gujarat (9%) account for bulk of the order book indicating the geographical concentration risk. While the geographical concentration of projects supports optimal resource deployment, its impact on the company's revenues could be severe if the region of operations is affected by unforeseen risks. It faces high project and client concentration with the top three clients contributing 86% to the total unexecuted order book and the top five orders accounting for ~74% of the unexecuted order book as on March 31, 2023.

Exposed to execution/offtake risks and sizeable contingent liabilities - The company is exposed to high execution/offtake risk as 76% of the order book as on March 31, 2023 is in the nascent stages of execution (less than 25% executed), with work yet to start for 16% of the orders. Thus, timely ramp-up in execution, will remain essential to support the company's revenue growth. ICRA has taken note of the invocation of bank guarantees worth Rs. 2.36 crore by one of its clients over the last two years. As per BICPL's management, this was a one-off issue and they are in discussion with the client to amicably settle the matter. While the quantum was small and the amount was paid to the banks promptly prior to the bank making payment under the guarantee, it highlights the risks associated with bank guarantees, which is a key risk for construction entities.

Moderate working capital intensity – The company's working capital intensity remains moderate with NWC/OI of 31.5% in FY2023 (FY2022: 32.1%), primarily due to sizeable work in progress inventory and receivables (inventory days of 96 days and debtor days of 84 days). BICPL manages its working capital cycle by availing credit period from its suppliers and subcontractors as it has a long-standing relationship with majority of its suppliers, as well as through mobilisation advances from clients.

Liquidity position: Adequate

The company's liquidity position is adequate, with liquid investments and free cash balance of ~Rs. 14.0 crore as on June 30, 2023, and cushion from undrawn working capital facilities. Against the available sanctioned cash credit facility of Rs. 114 crore (including interchangeable non-fund based limits), the utilisation stood at ~Rs. 81.04 crore as on July 24, 2023. It is expected to generate adequate cash flows from operations to meet its debt servicing obligations (debt repayment of Rs. 16.4 crore in FY2024).

Rating sensitivities

Positive factors - An upgrade in the ratings is unlikely in the near term. The outlook on the long-term rating can be revised to Stable if the business profile, including segmental and client diversification improves, while improving its profitability levels and coverage metrics.

Negative factors - Negative pressure on the ratings may arise if lower-than-anticipated billing or sustained pressure on operating profitability results in weak coverage metrics. The ratings could come under pressure if an elongation in the working capital cycle deteriorates the company's liquidity cushion. Credit metrics that could lead to a downgrade include the interest coverage decreasing to less than 4.5 times on a consistent basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Construction Entities
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

BICPL, incorporated in 1999, undertakes construction projects across the country. The scope of activities ranges from earthwork and site grading work for roads, construction of national and state highways, runway, apron, taxiway, internal road of airports and supply of boulders and aggregates for construction work. It also undertakes quarrying and crushing of stones and other materials along with handling, operation and maintenance of equipment used for these activities. The company also undertakes mining activities on leased sites and carries out road overlaying jobs.

Key financial indicators

BICPL – Standalone	FY2022	FY2023(Prov)
Operating income	453.0	671.0
PAT	13.0	26.1
OPBDIT/OI	10.8%	7.8%
PAT/OI	2.9%	3.9%
Total outside liabilities/Tangible net worth (times)	0.8	1.1
Total debt/OPBDIT (times)	1.5	2.3
Interest coverage (times)	6.6	4.3

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 Mar 31, 2023 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
					Jul 31, 2023	Jun 30 2023	-	Mar 25, 2022	Dec 31, 2020	Dec 18, 2020
1	Fund-based	Long term	60.00	-	[ICRA]A- (Negative)	[ICRA]A- (Negative)	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
2	Non-fund based limits	Long term	226.00	-	[ICRA]A- (Negative)	[ICRA]A- (Negative)	-	-	-	-
3	Non-fund based limits	Short term	-	-	-	-	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+
4	Interchangeable limit	Short term	(35.00)*	-	[ICRA]A2+	[ICRA]A2+	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+
5	Interchangeable limit	Long term	(32.00)**	-	[ICRA]A- (Negative)	[ICRA]A- (Negative)	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
6	Unallocated limits	Long term /Short term	-	-	-	-	-	-	[ICRA]A- (Stable)/ [ICRA]A2+	-

**Sublimit of long-term non-fund-based limit; ** Rs. 23 crore sublimit of long-term fund based limit and Rs. 9 crore sublimit of long-term non-fund-based limit; Amount in Rs. Crore*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based limit	Simple
Long-term – Interchangeable limits	Simple
Long-term – Non-fund based limits	Very Simple
Short-term – Interchangeable 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	Cash credit	-	-	-	60.00	[ICRA]A- (Negative)
NA	WCDL**	-	-	-	(32.00)	[ICRA]A- (Negative)
NA	Bank guarantee	-	-	-	226.00	[ICRA]A- (Negative)
NA	Letter of Credit*	-	-	-	(35.00)	[ICRA]A2+

*Source: Company; *Sublimit of Bank Guarantee; ** Rs. 23 crore sublimit of Cash Credit and Rs. 9 crore sublimit of Bank Guarantee; Amount in Rs. Crore*

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

Annexure II: List of entities considered for consolidated analysis: Not Applicable

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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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