

March 31, 2024^(Revised)

Bluegrass Technologies Private Limited: [ICRA]BB+ (Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Issuer rating	-	[ICRA]BB+ (Stable); assigned
Total	-	

*Instrument details are provided in Annexure-I

Rationale

The rating assigned to Bluegrass Technologies Private Limited (BTPL) factors in the experience of its promoters, adequate order book position (Rs. 137 crore as on January 31, 2024) with a reasonably reputed clientele, healthy profit margins (operating margins of 14-16% over the past three years) and comfortable debt coverage indicators (interest coverage ratio of 14.1 times and DSCR of 2.8 times as on March 31, 2023).

The rating is, however, constrained by its moderate scale of operations and working capital-intensive operations. BTPL's operating margin remains susceptible to the stiff competition in the industry and the tender-driven nature of business. Going forward, the company's ability to judiciously manage its working capital cycle while scaling up its revenues and maintain adequate liquidity cushion remain important from the credit perspective.

The Stable outlook on the rating reflects ICRA's expectation that the company will maintain a comfortable debt protection metrics in the near to medium term, given the expected ramp-up in scale of operations and absence of any major capex or investment plans.

Key rating drivers and their description

Credit strengths

Longstanding experience of promoters in industry; reputed clientele – While the company was incorporated in 2007, the Horizontal Directional Drilling (HDD) operations started from April 2017. One of the promoters of the company – Mr. Vishal Ummat – handles its day-to-day operations and has over 15 years of prior experience in HDD technology through his association with Punj Lloyd Limited and Trenchless Engineering Services Pvt Ltd. Considering it is a niche segment, HDD works are usually part of larger tenders. As a result, the company is a sub-contractor in 70-80% of the orders it executes and the same is expected to continue in a similar manner over the medium term. Nonetheless, its principal clients include players like Larsen & Toubro Ltd and Corrttech International Ltd., among others. Most of the contracts are from reputed public sector companies in the oil and gas industry, such as Indian Oil Corporation Ltd. (rated [ICRA]AAA(Stable)/A1+), Bharat Petroleum Corporation Limited (rated [ICRA]AAA(Stable)), GAIL India Limited and Hindustan Petroleum Corporation Limited.

Comfortable debt coverage indicators – BTPL's debt coverage indicators have remained comfortable during the past three years that ended in FY2023, driven by low debt levels and healthy profitability margins. The interest coverage ratio and DSCR stood at 14.1 times and 2.8 times, respectively, in FY2023. Given an expectation of modest increase in scale of operations and no major debt-funded capex/investment plans, the coverage ratios are expected to remain at a comfortable level.

Credit challenges

Moderate albeit growing scale of operations; working capital-intensive operations – BTPL’s total operating income remains moderate at Rs. 116 crore in FY2023. The same recorded a CAGR of 45% during FY2018-FY2023, albeit on a low base. The company’s tangible net worth stood moderate at Rs. 30.6 crore as on March 31, 2023. It operates in a working capital-intensive industry and faces risk of elongated receivable cycle due to milestone-based payment terms. Also, as a sub-contractor, the receipt of final invoice payments for few projects are delayed owing to extension in project timelines for the main contractors. There has been a build-up of receivables over the last two years (NWC/OI of 18-19% in FY2022-FY2023 Vs. 10% or lower prior to FY2022), which is currently funded largely by the extended credit period from suppliers. Consequently, the leverage metrics (TOL/TNW at 1.5 times as of March 2023) remains modest. Going forward, the company’s ability to judiciously manage its working capital cycle and maintain adequate liquidity cushion remains important from the credit perspective.

Competitive industry; tender-driven nature of business – The tender-driven nature of contracts leads to stiff competition and constrains pricing flexibility. For BTPL, manpower, logistics along with certain consumables and tooling constitute significant costs (as the main pipe to be installed is provided by clients). The profit margins remain susceptible to volatility in these consumable costs, from the levels budgeted into the bidding rate. The company’s ability to scale-up its operations profitably via prudent bidding will be a key monitorable.

Liquidity position: Adequate

The company’s liquidity is expected to be adequate with sufficient cash flow from operations to meet its debt servicing obligations. It has no major capex plans and moderate long-term debt repayment obligations of Rs. 2.05 crore in FY2025 and Rs. 0.67 crore in FY2026. BTPL has cushion in the fund-based working capital limits with the overall utilisation of fund-based working capital limit averaging at ~48% over the 12-months period that ended in February 2024.

Rating sensitivities

Positive factors – BTPL’s rating could be upgraded if the company demonstrates a sustained improvement in its scale of operations, supported by healthy order accretion, while maintaining healthy profitability and coverage indicators.

Negative factors – Negative pressure on BTPL’s rating could arise if there is a significant decline in scale of operations due to slow fresh order addition or delays in execution. Further, any significant deterioration in the working capital cycle and/or any major debt-funded capex, which adversely impacts the company’s leverage metrics and/or liquidity position, would also be a credit negative.

Analytical approach

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

About the company

Bluegrass Technologies Private Limited is a Delhi-based company, specialising in installation of pipelines by HDD for energy and industrial sectors (e.g., gas/oil/water/sewer). The company was established by Sanjeevak Marwaha and Vishal Ummat and forayed into HDD in 2017. At present, it provides in-house HDD project consultancy, design and engineering and field/downhole survey service to clients. It has successfully completed installation of approximately 100 km of pipeline of various diameter across different strata (soft and rocky terrain), mainly on sub-contracting basis. BTPL has completed projects

for reputed clients such as Indian Oil Corporation, GAIL India, Mahanagar Gas Limited, L & T Hydrocarbon, PTT Thailand, Mersing Malaysia & Singapore, STS Oman, etc.

Key financial indicators (audited)

BTPL	FY2022	FY2023	11M FY2024*
Operating income	92.3	116.2	105
PAT	7.0	8.2	NA
OPBDIT/OI	16.2%	14.4%	NA
PAT/OI	7.6%	7.0%	NA
Total outside liabilities/Tangible net worth (times)	1.5	1.5	NA
Total debt/OPBDIT (times)	1.2	0.9	NA
Interest coverage (times)	12.9	14.1	NA

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; *Provisional basis excluding unbilled revenues.

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 on March 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Mar 31, 2024			
1 Issuer rating	Long-term	-	-	[ICRA]BB+ (Stable)	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Issuer rating	Not applicable

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	Issuer rating	-	-	-	-	[ICRA]BB+ (Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis – Not applicable

Corrigendum:

Rationale dated March 31, 2024, has been revised with changes as below:

- Total debt/ OPBDIT ratio for FY2022 has been revised from 1.02 times to 1.2 times in the Key Financial Indicator table on Page 3.

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