

July 25, 2017

BNR Infrastructure Private Limited

Summary of Rated Instruments

Instrument*	Rated Amount (in crore)	Rating Action
Long-term: Fund-based facilities	17.00	Assigned [ICRA]BB- (Stable)
Short-term: Non-fund based facilities	14.00	Assigned [ICRA]A4
Total	31.00	

*Instrument Details are provided in Annexure-1

Rating Action

ICRA has assigned the long-term rating of [ICRA]BB- (pronounced ICRA double B minus) for the Rs.17.00-crore fund-based limits of BNR Infrastructure Private Limited (BNR). ICRA has also assigned the short-term rating of [ICRA]A4 (pronounced ICRA A four) for the Rs. 14.00 crore non-fund based limits of BNR. The outlook on the long-term rating is Stable.

Rationale

The ratings assigned takes into account the established track record of operations of BNR along with sound technical qualification of the promoters in the construction industry. The rating also draws comfort from adequate debt protection metrics and relatively low reliance on bank borrowings for the operations. The rating also considers gradual increase in scale of the projects executed by the company in recent past, low counterparty risk and low raw material price volatility risk associated with the projects executed by the company. The ratings are, however, constrained by the highly competitive nature of the construction industry resulting in reduced scope for scale and margin expansion. The revenues of the company witnessed a declining trend between FY2014 and FY2016 and registered a modest growth of around 2% in FY2017. Also, there has been a significant reduction in the new orders secured in FY2017, limiting the revenue visibility over the medium term. The rating is also constrained by the geographical concentration risks due to concentration of most of BNR's ongoing and future projects in Tamil Nadu.

Going forward, considering the competitive intensity in the civil construction business, the ability of the firm to secure regular orders to grow in scale and improve profitability, while maintaining a satisfactory track record for the timely execution of its projects in hand, remain important from a credit perspective.

Key rating drivers

Credit Strengths

- **Longstanding experience of the company and the partners in construction sector**

BNR Infrastructure Projects Private limited was established in 1971 by B. Nadamuni Reddy as small scale contracting company in Tirupathi. Over the years, the promoters have experience of completing numerous projects totaling more than Rs 500 crore in value in high-rise and commercial building construction, industrial construction, and property development.

- **Undertakes most of the projects from Government and its allied agencies thereby lowering the counter party risk**

The Major Clientele for the company in the past and current are primarily Tirumala Tiupathi Devasthanams, Tamil Nadu Housing Board, Tamil Nadu Slum Clearance board, Tamil Nadu Housing board, Department of Fisheries – Pondicherry.

- **Comfortable financial profile with moderate gearing and strong coverage indicators**

The interest coverage indicator and debt service coverage levels are comfortable owing to low working capital utilization and lack of major long term debt.

- **Relatively low vulnerability to raw material price escalation risk**

The presence of price escalation clauses for major raw materials on most of the projects mitigates the raw material price risk to an extent. Monthly billing cycle and regular payments from clients has also resulted in better management for working capital and inventory planning.

Credit Weakness

- **Industry characterized by high competitive intensity**

BNR is a small sized construction contractor with a limited project profile and geography of operations. The industry profile is characterized by high competitive intensity and presence of contractors who bid aggressively. The aggressive bidding scenario has resulted in diminished opportunity for scale expansion while maintaining stable margins.

- **Prone to project execution risk**

As with any construction contractor, the company is susceptible to project execution risk due to various external factors such as climatic conditions, man power availability etc. However, the company has established relationships with various agencies and a healthy track record of project execution.

- **Projects execution limited to Chennai/Tirupathi/Pondicherry regions; significant sectoral and customer concentration risk**

The company is exposed to significant sectoral concentration risk as it focuses currently on the housing and urban infrastructure sector. Similarly it concentrates on projects in and around Chennai. Though the company has executed projects for varied set of clients, majority of the recent projects have been for select a few clients like Tamil Nadu Housing Board, fisheries department and CMDA.

- **Weak order book position limiting the revenue visibility**

The operating income of the company had decreased from Rs 84.09crore in FY2015 to Rs 72.71 crore (estimate) in FY2017. The company has been selective in the bidding and it ensures that it bids for agencies that have track record of regular payments. However, the company is yet to bag any major orders in FY2018 resulting in reduced revenue visibility after FY2018. However, the company is actively pursuing for few major contracts in real estate segment, materialisation of which is expected to result improvement in scale as well as revenue visibility over the medium term.

Key financial indicators of BNR

	FY2015	FY2016
Operating Income (Rs. crore)	84.09	71.26
PAT (Rs. crore)	3.3	2.8
OPBDIT/ OI (%)	7.4%	6.6%
RoCE (%)	30.4%	22.5%
Total Debt/ TNW (times)	3.1	2.4
Total Debt/ OPBDIT (times)	2.2	3.6
Interest coverage (times)	9.5	10.2
NWC/ OI (%)	15.5%	26.5%

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodology as indicated below.

Links to applicable Criteria
[Corporate Credit Rating Methodology](#)
[Rating Methodology for Construction Entities](#)
About the Company:

BNR Infrastructure Projects Private limited was established in 1971 by B. Nadamuni Reddy as a small scale contracting company in Tirupathi. The company is headed by B. VenuGopal Reddy since 1979. During his tenure the company had grown significantly and in 2011, Mr Charan Prasad Boya, a management degree graduate from Stanford University, joined BNR. Over the years, the company has completed numerous projects in high-rise and commercial building construction, industrial construction, and property development.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:
Table: Rating History

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. crore)	Month-year & Rating FY2018	Month-year & Rating in FY2017	Month-year & Rating in FY2016	Month-year & Rating in FY2015
				July 2017	-	-	-
1	Fund Based Facilities	Long Term	17.00	[ICRA]BB-(Stable)	-	-	-
2	Non Fund Based Facilities	Short Term	14.00	[ICRA]A4	-	-	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in.

Annexure-1
Instrument Details

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Secured Overdraft	-	-	-	17.00	[ICRA]BB- (Stable)
Bank Guarantee	-	-	-	13.00	[ICRA]A4
LC	-	-	-	1.00	[ICRA]A4



Name and Contact Details of the Rating Analyst(s):

Ravichandran. K

+91 44 4596 4301

ravichandran@icraindia.com

R Srinivasan

+91 44 4596 4315

srinivasan.r@icraindia.com

Nikhil Mathew

+91 80 4922 5569

nikhil.mathew@icraindia.com

Rathina Pradeep

+91 44 4297 4307

rathina.r@icraindia.com

Name and Contact Details of Relationship Contacts:

Jayanta Chatterjee

+91 80 4332 6401

jayantac@icraindia.com

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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**Registered Office****ICRA Limited**

1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office**Mr. Vivek Mathur**

Mobile: +91 9871221122

Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

3rd Floor, Electric Mansion
Appasaheb Marathe Marg, Prabhadevi
Mumbai—400025,
Board : +91-22-61796300; Fax: +91-22-24331390

Kolkata**Mr. Jayanta Roy**

Mobile: +91 9903394664

Email: jayanta@icraindia.com

A-10 & 11, 3rd Floor, FMC Fortuna
234/3A, A.J.C. Bose Road
Kolkata—700020
Tel +91-33-22876617/8839 22800008/22831411,
Fax +91-33-22870728

Chennai**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

5th Floor, Karumuttu Centre
634 Anna Salai, Nandanam
Chennai—600035
Tel: +91-44-45964300; Fax: +91-44 24343663

Bangalore**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

'The Millenia'
Tower B, Unit No. 1004, 10th Floor, Level 2 12-14, 1 & 2,
Murphy Road, Bangalore 560 008
Tel: +91-80-43326400; Fax: +91-80-43326409

Ahmedabad**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

907 & 908 Sakar -II, Ellisbridge,
Ahmedabad- 380006
Tel: +91-79-26585049, 26585494, 26584924; Fax:
+91-79-25569231

Pune**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range
Hills Road, Shivajinagar, Pune-411 020
Tel: + 91-20-25561194-25560196; Fax: +91-20-
25561231

Hyderabad**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj
Bhavan Road, Hyderabad—500083
Tel:- +91-40-40676500