April 08, 2020

Commtel Networks Private Limited: Rating reaffirmed; outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term, Fund-based Facilities	48.00	63.00	[ICRA]BBB+ (Stable); Rating Reaffirmed, Outlook revised to Stable from Positive
Short-term, Non-fund Based Facilities	32.00	17.00	[ICRA]A2; Rating Reaffirmed
Long-term/Short-term Interchangeable Facilities^	(40.00)	(50.00)	[ICRA]BBB+ (Stable) / [ICRA]A2; Rating Reaffirmed, Outlook revised to Stable from Positive
Total	80.00	80.00	

**Instrument details are provided in Annexure-1*

^Rs. 50 crore sublimits 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 can not exceed Rs. 35.00 crore and total utilistion of bank guarantees should not exceed Rs. 20.00 crore, inter-citi SBLC cannot exceed Rs. 15.00 crore.

Rationale

The reaffirmation of ratings and revision in outlook for Commtel Networks Private Limited (CNPL or 'The company') reflects the degrowth in the company's operating income, which in turn is likely to impact the fixed cost absorption leading to moderation in operating margin during FY2020. This is attributable to the lower execution of fresh order inflow during the early part of FY2020, given the slowdown. Nevertheless, the pace of fresh order inflow has witnessed some momentum and has improved in the later part of FY2020. Evidently, the company's unexecuted order book remains moderate, at Rs. 242.36 crore (1.15 times of OI in FY2020), providing limited revenue visibility in the near term. Furthermore, the cascading impact of the ongoing Covid-19 pandemic crisis and the reactionary shutdown in India, can impact the revenues and margins in the near term. Further, the rating continues to remain constrained by the high customer and sector-specific concentration risks as more than 90% of the company's revenue is generated through the oil and gas sector and the resultant susceptibility of revenues and profits to any slowdown in investments in this sector (as witnessed in FY2016). The ratings also remain constrained by the high working capital intensive nature of business, owing to the build-up of debtors and inventory position.

The ratings, however, continue to drive comfort from the satisfactory financial risk profile, as indicated by an adequate operating margin, low gearing due to limited dependency on external borrowing, and comfortable interest and debt coverage indicators, though it has moderated in 9M FY2020. The ratings continue to take into account the company's extensive operational track record in delivering turnkey telecommunications solutions, extensive experience of its key management personnel as well as established relationships with the reputed customers, which have also resulted in repeat orders.

The stable outlook on the rating reflects ICRA's opinion that the strong experience of the promoters in the industry is likely to guide the growth of the company.

Key rating drivers

Credit strengths

Extensive track record in delivering turnkey telecommunication and surveillance solutions - CNPL is managed by Mr. Shriprakash Pandey and other key personnel with established experience in delivering converged telecommunication systems and related solutions to customers in various sectors, like oil and gas, power, and transportation. Mr. Shriprakash Pandey has an experience of around three decades in the field of engineering and technology.

Established relationships with reputed customers - The company's customer base consists of various reputed end-customers as well as engineering, procurement and construction (EPC) players in the oil and gas industry in the domestic and international market. CNPL's strong execution track record has led to significant repeat businesses, further strengthening its relationship with customers. Also, due to successful execution of the contracts for various EPCs, the geographies of these EPCs open up for CNPL. The company had business relationships with around 8 to 10 EPC players almost three years ago, and it increased to 42 EPC players globally by FY2020.

Satisfactory financial risk profile characterised by adequate profitability metrics, low gearing and comfortable coverage indicators - The OPM remains healthy and marginally improved to 17.10% in FY2019 from 16.98% in FY2018. Lower cover on fixed cost due to a decrease in the scale of operation in the current year till 9M FY2020 has led to moderation in OPM, however, it continues to remain adequate at 14.56% during 9M FY2020. Further, due to a strong net worth position against a limited dependence on external debt, the capital structure of the company remains comfortable, as indicated by the gearing level of 0.27x as on March 31, 2019 and 0.23x as on December 31, 2019. Interest coverage, as represented by OPBDITA/I&F charges, improved marginally to 11.89x during FY2019 from 10.05x during FY2018. The moderation in profits in the current year has affected the coverage indicators to an extent, however, it remained comfortable at 4.54 times during 9M FY2020.

Credit challenges

Notable decline in operating income during FY2020; moderation of operating margin due to weakening of fixed cost cover

The OI of the company declined by 25.95% to Rs. 210.36 crore during FY2020, against a turnover of Rs. 284.09 crore achieved during FY2019. This is attributable to the lower execution of orders, given the slowdown in fresh order inflow during the early part of FY2020. Nevertheless, the pace of fresh order inflow has witnessed some momentum and has improved during the later part of FY2020. Evidently, it has a moderate closing order book of Rs. 242.63 crore as on March 31, 2020 which is almost 1.15x FY2020 turnover, which provides a visibility of limited growth in the near term. However, the pace of the order book execution as well as new order inflow remains contingent to the extent of the lockdown due to the Covid-19 crisis or the pace at which normal business resumes, post the crisis. The cascading impact and the reactionary shutdown in India, can impact the revenues and margins in the near term.

Projects awarded through competitive bidding affect overall growth - The company undertakes projects for companies in the public as well as the private sector. Government projects involve the lowest bid (L1) tenders with pre-defined qualification criteria. Once a company’s technical bid gets approved, the project is awarded to the lowest financial bidder. The competitive bidding process may affect the project inflow and the overall growth of the company.

High customer and sector-specific concentration risks – Given the high concentration of revenues towards the oil and gas sector (which contributes to more than 90% of the total revenues during last two years), the revenues and the profits of the company remain susceptible to any slowdown in investments in this sector. This was witnessed in FY2016, when owing to the fall in crude oil prices between FY2015-FY2016, and the resultant scaling back of investments in the oil and gas sector, the revenues and profits of the company were impacted. The recent decline in crude prices may delay investment activities in the oil & gas sector, which is the key revenue contributor to the company’s revenue.

High working capital intensity – CNPL’s working capital requirement, as reflected by the ratio of net working capital (NWC) to operating income (OI), continued to remain high and further increased to 40.27% in FY2019 from 32.23% in

FY2018. This is particularly due to the high debtors' build-up during the year-end and because of the early payments to suppliers. Further, for 9M FY2020, majority of revenues were booked in Q3 FY2020 and a higher amount of inventory for the completion of projects during Q4 FY2020 resulted in higher debtors and inventory position, leading to the NWC/OI of 87% during 9M FY2020. High working capital intensity entails high utilisation of the sanctioned working capital limit.

Liquidity Position: Adequate

The company did not have any major long-term loans outstanding as on March 31, 2019. However, the working capital intensity of the business remains high due to the overall elongated receivable position and high inventory levels, which also entail high utilisation of almost 95% of the sanctioned limits, averaged during the last 15 months ended December 2019. Nevertheless, considering no major repayment obligations, and considerable cash accruals generated on a YoY basis, backed by strong profitability, and free cash and bank balance of ~Rs. 16.43 crore as on March 31, 2020, the company's overall liquidity profile is expected to remain adequate. However, the nationwide lockdown due to the ongoing pandemic crisis and a longer-than-anticipated stretch in the lockdown period can severely impact the operations and the liquidity profile.

Rating Sensitivities

Positive triggers: The rating could be upgraded if the company's scale of operations grows to the extent that its competitive position is enhanced, and the customer profile becomes more diversified supporting earnings stability, and better working capital management with improvement in debtors realisation

Negative triggers: The rating could be downgraded if the company witnesses a considerable decline in sales, weakening of profitability or deterioration in liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	The rating is based on the consolidated financial statements of the company

About the company

Incorporated in 1998, CNPL 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 50,000 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 Africa (MEA) region.

In FY2019, the company reported a net profit of Rs. 35.77 crore on an OI of Rs. 284.09 crore, compared to a net profit of Rs. 31.61 crore on OI of Rs. 249.45 crore in the previous year. The company has achieved a net profit of Rs. 8.23 crore on an OI of Rs. 111.38 crore during 9M FY2020.

Key financial indicators (audited)

	FY2018 Audited	FY2019 Audited	9MFY2020 Provisional
Operating Income (Rs. crore)	249.45	284.09	111.38
PAT (Rs. crore)	31.61	35.77	8.23
OPBDIT/ OI (%)	16.98%	17.10%	14.56%
RoCE (%)	28.82%	27.37%	9.03%
Total Outside Liability / TNW (times)	0.74	0.49	0.49
Total Debt/ OPBDIT (times)	0.68	0.82	1.69
Interest Coverage (times)	10.05	11.89	4.54
DSCR	8.04	9.41	4.01

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

		Current Rating (FY2021)				Chronology of Rating History for the past 3 years			
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Current rating 8th April 2020	Date & Rating in FY2020 -	Date & Rating in FY2019 28th March 2019	Date & Rating in FY2019 31st December 2018	Date & Rating in FY2018 10th November 2017
1	Fund-based Facilities	Long term	63.00	-	**[ICRA]BBB+ (Stable)**	**-**	**[ICRA]BBB+ (Positive)**	**[ICRA]BBB+ (Positive)**	**[ICRA]BBB+ (Stable)**
2	Non-fund Based Facilities	Short term	17.00	-	**[ICRA]A2**	**-**	**[ICRA]A2**	**[ICRA]A2**	**[ICRA]A2**
3	Unallocated Facilities	Short term	0.00	-	**-**	**-**	**-**	**[ICRA]A2**	**[ICRA]A2**
4	Interchangeable Facilities	Long term/ Short term	(50.00)	-	**[ICRA]BBB+ (Stable) / [ICRA]A2**	**-**	**[ICRA]BBB+ (Positive) / [ICRA]A2**	**[ICRA]BBB+ (Positive) / [ICRA]A2**	**[ICRA]BBB+ (Stable) / [ICRA]A2**

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

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term, Fund-based Facilities	-	-	-	63.00	[ICRA]BBB+ (Stable)/[ICRA]A2
NA	Short-term, Non-fund Based Facilities	-	-	-	17.00	[ICRA]A2
NA	Long-term/Short-term Interchangeable Facilities*	-	-	-	(50.00)	[ICRA]BBB+ (Stable)/[ICRA]A2

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Source: Commtel Networks Private Limited

Annexure-2: List of Entities considered for consolidation analysis

Company name	Ownership	Consolidation approach
Commtel Networks Private Limited	100%	Full Consolidation

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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.

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For more information, visit www.icra.in

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