

March 25, 2022

Balajee Infratech and Constructions Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based Limit	35.0	35.0	[ICRA]A-(Stable); reaffirmed
Long-term Interchangeable Limits	(15.0)	(15.0)	[ICRA]A-(Stable); reaffirmed
Short-term Non-fund-based Limit	169.0	171.0	[ICRA]A2+; reaffirmed
Short-term Interchangeable Limits	(15.0)	(15.0)	[ICRA]A2+; reaffirmed
Unallocated Limits	2.0	0.0	-
Total	206.0	206.0	

*Instrument details are provided in Annexure-1

Rationale

The reaffirmation of the ratings favourably factors in Balajee Infratech and Construction Private Limited's (BICPL) adequate order book (order book to OI ratio of 2.5 times) that provides medium-term revenue visibility, a healthy operating profitability, low leverage (TOL/TNW of 0.8 times as on Mar-2021) and its comfortable debt coverage indicators with interest cover likely to remain above 6 times over medium term. BICPL's order book stood at Rs. 1,444 crore as of December 2021, supported by healthy order inflows of Rs. 1,252 crore in 9M FY2022. 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 ratings are, however, constrained by BICPL's modest scale of operations and the concentration of its order book in a few states and projects which are in early stages of implementation. About 79% of the order book as on December 01, 2021 was in nascent stages of execution (less than 15% executed). This exposes the company to higher execution risk which could have an impact on its revenues and profitability. Further, the company has high dependence on two states - Maharashtra (56%) and Karnataka (13%) -which exposes the company to geographical concentration risks.

The ratings are further constrained by the moderate working capital intensive operations on account of elongated receivables, reflected in NWC/OI of over 29% in FY2021. The ratings also note the stiff competition in the construction sector and the company's exposure to sizeable contingent liabilities in the form of bank guarantees, mainly for contractual performance, mobilisation advance and security deposits. ICRA has taken note of the invocation of a bank guarantee of Rs.0.5 crore by one of its clients in Q3 FY2022. As per BICPL's management, this was a one-off issue related to a project and they are in a discussion with the client to amicably settle the matter. While the quantum of the BG invocation was small and the amount was paid to the banks promptly prior to bank making payment under the guarantee, it highlights the risks associated with bank guarantees, which is a key risk for construction entities.

The Stable outlook reflects ICRA's opinion that the company will continue to maintain a healthy financial profile, characterised by comfortable capital structure and healthy debt coverage indicators because of its low reliance on external borrowings and the healthy cash accruals.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters; reputed clientele – The company has been engaged in various infrastructure-related works since 1999 and has executed many projects across the country. The company is present in diversified business segments, including mining, earthwork, crushing and supplying aggregates. The works undertaken for airports (34%) and roadways (40%) have been BICPL's major drivers, followed by mining (24%) and other activities in FY2021. The mining segment includes quarrying, crushing and transportation activities. BICPL caters to reputed private players across construction and other industries. Its clientele includes companies such as Larsen & Toubro Ltd, Modern Road Makers Pvt. Ltd., Reliance Industries Ltd, Bangalore International Airport Ltd., Hero Motocorp Ltd., Tata Steel Limited, Jindal Saw Limited and Ashoka Buildcon Limited. Over the years, the company has built established relationships with its key customers, which has also supported its revenue growth.

Comfortable capital structure and debt protection metrics - The company's capital structure has remained comfortable with debt/OPBIDTA of 0.8 times and TOL/TNW being 0.8 times in FY2021, supported by strong net worth and low dependence on external borrowings due to moderate working capital intensity. The coverage indicators also remained strong with an interest coverage of 8.1 times in FY2021, increasing from 5.6 times in FY2020. Going forward, the credit metrics of the company are expected to remain healthy.

Adequate order book provides medium-term revenue visibility - The company's fresh order inflows in the last five fiscals have remained healthy, with orders worth Rs. 482 crore added in FY2021 and Rs. 1,252 crore in 9M FY2022. The new orders along with the regular order inflows of the past led to a healthy order book of Rs. 1,444.3 crore as on December 31, 2021. The OB/OI ratio remains healthy at 2.5 times (~2.2 times adjusting for slow moving and non-moving projects) the operating income of FY2021 and at 2.6 times the average operating income of the last three years (FY2019-FY2021), providing medium-term revenue visibility. A timely execution of these orders is critical to sustain revenue recognition going forward.

Credit challenges

Modest scale of operations; high competition – The company's scale of operations remains modest and it operates in a highly competitive industry with the presence of much larger peers. Most of its orders are subcontracted from private players through negotiations. While the number of players in the industry restricts the profit margin, the company's established relationships with its customers support its revenue growth. The company also benefits by executing material supply orders, along with land development work for roads and airports.

Execution risks - The company is exposed to high execution risk as 79% of the order book as on December 01, 2021 are in nascent stages of execution (less than 15% executed). This could have an impact on its revenue and profitability. Further, the company has high dependence on two states - Maharashtra (56%) and Karnataka (13%) - which exposes the company to geographical concentration risks. Further, segment, project and client concentration remains high. The road & highways and the airport segments accounted for 79% of the unexecuted order book; the top 10 orders made up for 73% of the unexecuted order book and the top 3 clients contributed 79% to the unexecuted order book as on December 01, 2021. ICRA has taken note of the invocation of a bank guarantee of Rs.0.5 crore by one of its clients in Q3 FY2022. As per BICPL's management, this was a one-off issue related to a project and it is in discussions with the client to amicably settle the matter. While the quantum of the BG invocation was small and the amount was paid to the banks promptly prior to bank making payment under the guarantee, it highlights the risks associated with bank guarantees, especially for construction entities.

Moderate working capital intensity – The company's working capital intensity has increased, though it remained moderate with NWC/OI of 29.8% in FY2021, primarily due to stretched receivables and high work in progress inventory. While the company had completed the work, it could not bill to the customers due to operational challenges. The company 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 is expected to generate adequate cash flows from operations to meet its debt servicing obligations (debt repayment of Rs. 6.8 crore in FY2023). Further, the company had unencumbered cash and liquid investments of Rs. 6.4 crore as of November 2021, and cushion from undrawn working capital facilities. Against the available sanctioned cash credit facility of Rs. 59 crore, the utilisation stood at ~Rs. 27 crore as on December 31, 2021. The non-fund-based facilities of the company are utilised to the extent of 71% as on December 31, 2021, providing cushion for securing new orders.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if the company demonstrates a significant growth in its overall scale of operations along with an improvement in its working capital intensity, while maintaining its operating profitability and strengthening its liquidity position.

Negative factors – Negative pressure on the ratings may arise if sustained pressure on its execution/billing or deterioration in operating profitability weakens its coverage metrics. The ratings could also 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 (but not limited to) the TOL/TNW increasing beyond 1.4 times on a sustained 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	The ratings are based on the standalone financial profile of the company

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 (audited)

	FY2020	FY2021	8MFY2022 (Prov)
Operating Income (Rs. crore)	606.8	574.8	254.4
PAT (Rs. crore)	38.0	37.0	5.4
OPBDIT/OI (%)	11.8%	11.6%	12.0%
PAT/OI (%)	6.3%	6.4%	2.1%
Total Outside Liabilities/Tangible Net Worth (times)	1.3	0.8	0.8
Total Debt/OPBDIT (times)	1.4	0.8	1.4
Interest Coverage (times)	5.6	8.1	6.6

Source: STPL: 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

Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years				
	Type	Amount Rated (Rs. crore)	Amount Outstanding (as on Nov 2021, Rs. crore)	Date & Rating on	Date & Rating in FY2021		Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
				Mar 25, 2022	Dec 31, 2020	Dec 18, 2020	-	-	Oct 23, 2017
1 Fund-based	Long term	35.0	29.6	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	-	-	[ICRA]BBB-(Stable); Withdrawn
2 Non-Fund based Limits	Short term	171.0	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	-	-	-
3 Interchangeable limit	Short term	(15.0) *		[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	-	-	-
4 Interchangeable limit	Long term	(15.0) **		[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	-	-	-
5 Unallocated limits	Long term /Short term	0.0		-	[ICRA]A-(Stable)/[ICRA]A2+	-	-	-	[ICRA]BBB-(Stable) / [ICRA]A3; Withdrawn

*Sublimit of short-term non-fund-based limit; ** sublimit of long-term fund based limit; Amount in Rs. crore

Complexity level of the rated instrument

Instrument Name	Complexity Indicator
Long-term Fund-based Limit	Simple
Long-term Interchangeable Limits	NA
Short-term Non-fund-based Limit	Very Simple
Short-term Interchangeable Limits	NA
Unallocated Limits	NA

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 analyzing 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, is available on ICRA's 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	Cash Credit	-	-	-	35.00	[ICRA]A- (Stable)
NA	WCDL**	-	-	-	(15.00)	[ICRA]A- (Stable)
NA	Bank Guarantee	-	-	-	171.0	[ICRA]A2+
NA	Letter of Credit*	-	-	-	(15.00)	[ICRA]A2+

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

Annexure-2: List of entities considered for consolidated analysis: Not Applicable

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