

November 29, 2022

Asa Bhanu Technical Services Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based limits	6.00	8.00	[ICRA]BB(Stable); Reaffirmed
Short-term – Non-fund based limits	19.00	17.00	[ICRA]A4+; Reaffirmed
Total	25.00	25.00	

*Instrument details are provided in Annexure-I

Rationale

The ratings reaffirmation of Asa Bhanu Technical Services Limited (ABTSL) considers its presence across multiple segments with engineering, procurement and construction (EPC) of transmission and distribution (T&D) works and maintenance of metro rolling stocks and reputed clientele with key customers like UP Metro Railway Corporation Limited and Gujarat Metro Rail Corp Limited. The ratings consider ABTSL's moderate leverage with TOL/TNW of 1.0 times as on March 31, 2022 owing to low debt levels. Notwithstanding its low debt levels, the debt coverage metrics deteriorated with interest cover declining to 1.5 times in FY2022 from 3.6 times in FY2021 on account of the reduction in operating profits and increased expenses. The operating margins decreased to 3.8% in FY2022 from 7.0% in FY2021 due to a steep increase in key raw material prices (copper and aluminium) for EPC works, along with absence of price variation clauses for majority of EPC works. With the completion of the EPC order book, the operating margins are expected to improve in the near term. The order book position remained moderate at Rs. 48.5 crore as on November 14, 2022, providing limited medium-term visibility owing to the average execution period of 5-7 years. The ratings are also constrained by ABTSL's modest scale of operations with revenues of Rs. 45.4 crore in FY2022 and expected decline in revenues to Rs. 35 crore in FY2023, considering the low order book position of the EPC segment. The ratings are constrained by the high working capital intensity owing to elongated debtor days, high customer concentration risk with the top three customers accounting for 76% of the total revenues in FY2022 and high project concentration risk with the top three projects constituting 73% of the order book.

The Stable outlook on the long-term rating reflects ICRA's opinion that the company will continue to benefit from its presence across multiple segments and moderate leverage levels.

Key rating drivers and their description

Credit strengths

Presence across multiple segments – The company has presence across multiple segments such as EPC of T&D works (68% of total revenues), maintenance of metro rolling stocks (transportation engineering unit, 14%) and supply chain management (4%). Under T&D work, ABTSL does electrical substation installation work, while its transportation engineering unit provides engineering solutions and project management for rolling stock of metro rail projects.

Moderate leverage – The leverage is moderate with TOL/TNW of 1.0 times as on March 31, 2022 owing to low debt levels. The company's debt profile comprises Rs. 7.85 crore of working capital facility, Rs. 0.35 crore of unsecured loans and Rs. 0.08 crore. While moderation in operating profits impacted its interest cover in FY2022, the overall coverage metrics is likely to improve over the medium term in the backdrop of the expected improvement in its operating profits.

Reputed clientele – The company has a reputed customer base such as Western Railways, Transmission Corporation of Telangana Limited, Karnataka Power Transmission Corporation Limited, Mitsubishi Electric India Private Limited, Kochi Metro Rail Limited. It has added five clients over the past six months: Kochi Metro Rail Limited, UP Metro Rail Corporation Limited, Gujarat Metro rail Corp Limited, Arcadis Consulting (UK) Limited and Tokyo Energy Systems.

Credit challenges

Small scale of operations – The company’s scale of operations remains small with an operating income (OI) of Rs. 45.4 crore in FY2022, which is expected to decline to around Rs. 35 crore in FY2023 owing to low order book addition in the EPC segment. ABTSL’s order book stood moderate at Rs. 48.4 crore as on November 14, 2022. Majority of the order book pertains to metro rolling stock and has a tenure of 5-7 years providing medium-term revenue visibility.

High project and customer concentration risks – The project concentration risk is high with top three projects accounting for 72.8% of the order book as on November 14, 2022. Any slowdown in these projects could adversely impact its turnover. Also, the customer concentration risk is high with the top three customers contributing to 76% of revenues in FY2022.

Moderate working capital intensity – The working capital intensity stood moderate at 24.5% in FY2022 owing to high debtor days. The debtor days are high on account of higher billing in the last quarter of the year. With completion of majority of EPC orders, the receivable cycle is expected to improve as payments in the metro segment are generally received within 30 days.

Liquidity position: Adequate

ABTSL’s liquidity is adequate, with average utilisation of 78.7% of the sanctioned limits for the last 12 months ending August 2022. Further, it has cushion of Rs. 5.2 crore in working capital limits as of October 2022. The company has minimal debt obligations and low capex plans for FY2023, which can be comfortably met from its operating cash flows.

Rating sensitivities

Positive factors – The ratings may be upgraded if there is a significant improvement in the revenues and profitability margins along with an improvement in the working capital intensity, marked by reduction in debtor days.

Negative factors – The ratings may be downgraded if there is a decline in the company’s revenues and profitability margins or any deterioration in the working capital cycle, adversely impacting the liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology-Construction
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the company’s standalone financial statements

About the company

Incorporated in 1995, Asa Bhanu Technical Services Limited (ABTSL) provides planning, project management, system conceptualisation, design, erection, testing and commissioning in the fields of transmission and distribution including detailed design of GIS substations of up to 500 KV, and EPC of AIS substations. Further, the company is involved in maintenance of rolling stock of metro rail systems, project management, testing and commissioning of signaling for mass rapid transit systems (MRTS) through its transportation engineering department. The corporate office is in Hyderabad, India and also has offices in Bangalore, New Delhi, Ahmedabad and Amagasaki, Japan.

Key financial indicators (audited)

	FY2021	FY2022
Operating income	29.3	45.4
PAT	0.9	0.6
OPBDIT/OI	7.0%	3.8%
PAT/OI	2.9%	1.3%
Total outside liabilities/Tangible net worth (times)	0.8	1.0
Total debt/OPBDIT (times)	2.6	4.8
Interest coverage (times)	3.6	1.5

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

Status of non-cooperation with previous CRA:

CRA	Status of non-cooperation	Date of press release
CRISIL	CRISIL B; Stable; Issuer not cooperating CRISIL A4 Issuer not cooperating	July 14, 2022

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2023)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
				Nov 29, 2022	Aug 27, 2021	-	Feb 06, 2020
1 Fund-based limits	Long term	8.00	-	[ICRA]BB (Stable)	[ICRA]BB (Stable)	-	[ICRA]BB (Stable)
2 Non-fund based limits	Short term	17.00	--	[ICRA]A4+	[ICRA]A4+	-	[ICRA]A4+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based limits	Simple
Non-fund based 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	Fund-based - CC	NA	NA	NA	8.00	[ICRA]BB (Stable)
NA	Non-fund based - LC/BG	NA	NA	NA	17.00	[ICRA]A4+

Source: Company

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

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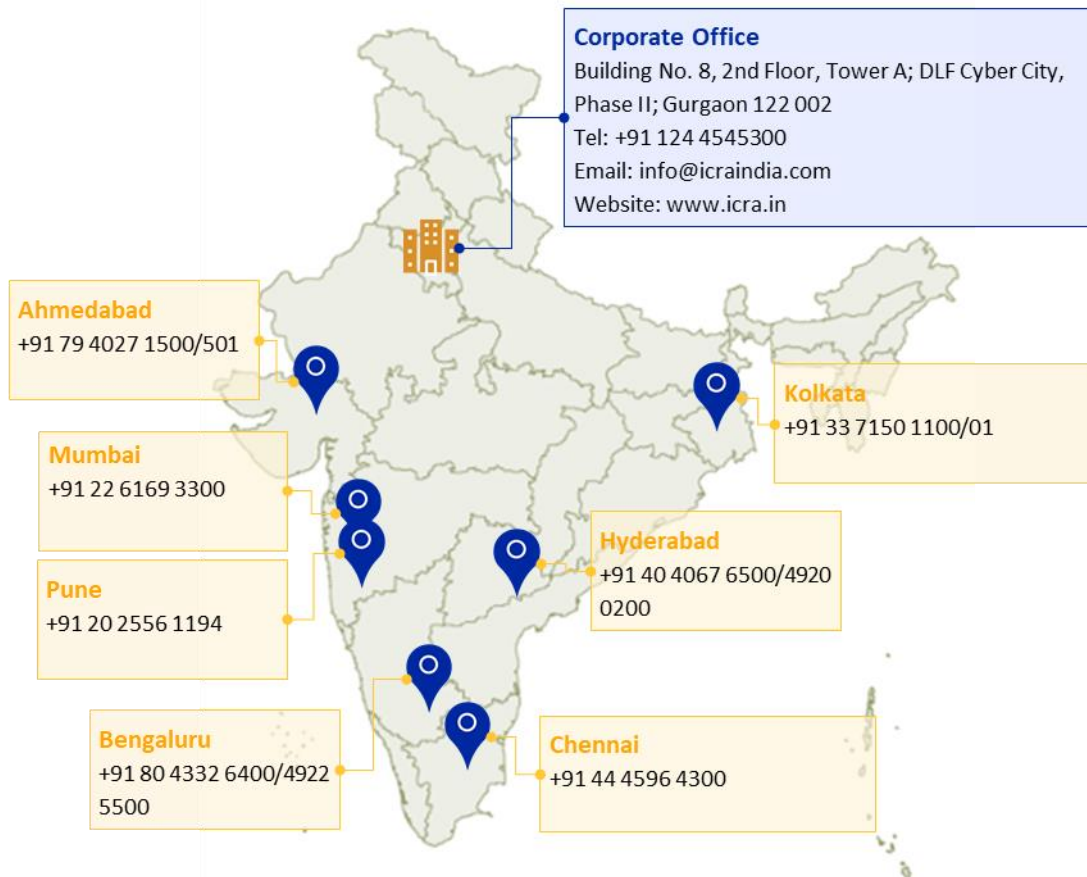
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