

February 24, 2023

Bondada Engineering Private Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term - Fund based - Term loan	3.00	0.00	-
Long term - Fund based – Cash credit	36.00	55.00	[ICRA] BBB (Stable); reaffirmed and assigned to enhanced limits
Short term – Non-Fund based	10.00	205.00	[ICRA]A3+; reaffirmed and assigned to enhanced limits
Total	49.00	260.00	

*Instrument details are provided in Annexure I

Rationale

The reaffirmation of the ratings continues to factor in Bondada Engineering Private Limited’s (BEPL) operational track record and the extensive experience of the promoters in the design, installation, operation and maintenance of telecom towers and optical fibre cable (OFC) lines. The ratings factor in the low counterparty credit risk, given the company’s reputed customer base with a track record of repeat business. In the current fiscal, BSNL has awarded a large order to BEPL for the installation, operation and maintenance of telecom towers, leading to a strong order book and revenue visibility. Backed by the high margin accretive BSNL project and an overall increase in scale, the operating profit margin is also expected to improve, going forward. The ratings also factor in the comfortable debt coverage metrics, with an interest coverage of 4.2 times and TD/OPBITDA of 1.7 times in FY2022.

The ratings, however, remain constrained by BEPL’s high working capital intensity and average working capital limit utilisation in the past 12 months. The ratings are also constrained by intense competition in the telecom and power infrastructure projects, which keeps the profit margins under check. The ratings also continue to factor in the risk of high customer/project concentration with the top five customers contributing to around 91% of the total revenue in FY2022. Further, the order book is highly concentrated, with the BSNL order accounting for 77% of the order book. This increases the risk of revenue booking in case of any delay in order execution or payments from the order. However, a reputed customer profile mitigates the customer concentration risk to an extent.

Going forward, BEPL’s ability to scale up the execution of the current order book and manage the working capital requirement would be the key factors for determining the financial risk profile of the company.

The Stable outlook assigned to the company reflects ICRA’s expectation that BEPL would continue to maintain its credit profile with the improvement in the revenue and profit margins along with an adequate liquidity position, supported by the execution of the moving order book and timely recovery of receivables.

Key rating drivers and their description

Credit strengths

Established track record of BEPL in telecom industry – BEPL, incorporated in 2012, is involved in the design and erection of telecom towers and provides O&M services to telecom companies. The company has an established track record of executing work orders for reputed telecom players in the past. BEPL has been hiring professionals from the industry in recent years at various leadership positions across verticals and project divisions, which augurs well for the future growth prospects of the company. Besides telecom projects, BEPL is present in solar power EPC projects and manufactures aerated autoclaved concrete

(AAC) blocks and unplasticised polyvinyl chloride (uPVC) windows/doors. The AAC blocks and uPVC doors/windows are manufactured by its subsidiaries.

Major part of client portfolio comprises reputed and financially strong players, which reduces counterparty risks - The company's major customers include reputed telecom service providers and telecom infra companies in India like Reliance Projects and Property Management Services Limited, Reliance Jio, Indus Towers Limited, Tata Communications Transformation Services Ltd etc which have strong credit risk profiles. Though the customer concentration risk is high with the top five customers contributing to around 91% of the total revenue in FY2022, the risk is mitigated to some extent by the reputed customer base with a track record of repeat business.

Improved revenue and margins in FY2022 and healthy revenue visibility due to addition of large orders – In FY2022, the company reported a healthy 16% growth of Rs. 334.4 crore at the consolidated level due to increased revenue from the power segment. The operating margin marginally improved to around 6.2% in FY2022 (5.7% in FY2021) due to a varying mix of revenues.

Further, there was a sharp increase in the order book to ~Rs. 1,861.5 crore as on December 31, 2022 from Rs. 239.8 crore as on July 31, 2021 with the inflow of the large order from BSNL in Q3 FY2023, providing healthy revenue visibility for the next two fiscals. The new order from BSNL is for the supply and erection of ground base towers (GBT) and installation of infrastructure items and subsequent O&M. It is being funded by the Universal Service Obligation Fund (USOF) with an execution timeline of 18 months with subsequent O&M for five years. The remaining orders are majorly from the telecom and power segments which are to be executed by FY2024-end. Backed by the high margin accretive BSNL project and overall increase in scale, the operating profit margin is also expected to improve, going forward. Further, the coverage indicators remained comfortable as reflected by Interest cover of 5.9 times for FY2022, TD/OPBDITA remained at 1.8 times in FY2022 from 2.9 times in FY2021 on account of the improvement in OPBDITA levels.

Credit challenges

Intense competition, tender-based contract awarding system keep margins under check - ICRA notes that the engineering, procurement and construction industry is intensely competitive due to its fragmented nature with the presence of many players. This, coupled with the lowest bidding system, keeps the margins of all players, including BEPL, under check. The margin is also exposed to volatility in raw material prices due to the fixed-price contracts. Nevertheless, the company builds in the likely price variation in the order value which mitigates the risk to an extent. The profitability is expected to improve, going forward, given the higher operating margin of the new large order than the historical trends.

High working capital intensity- BEPL's working capital intensity remained high at 24.5% in FY2022 due to sales concentration in Q4 FY2022. However, the working capital intensity has improved from 26.6% in FY2021 owing to lower debtor and inventory days in FY2022 compared to the previous year. The inventory comprises all the in-progress tower/OFC projects for TSPs, including foundation work, tower erection etc. The working capital requirements are expected to increase, going forward, for the execution of the BSNL order. The company has received an enhancement in the working capital limits of Rs. 180.0 crore consisting of non-fund based limits in the form of bank guarantee for meeting the performance bank guarantee and advance mobilisation requirements for the BSNL order.

High customer and project concentration risk - The current orders have an average tenure of 18-24 months. However, delays, if any, in getting clearances from the awarding authorities or delays in project execution by the company could have a potential impact on its future revenue growth and liquidity position. Further, the order book is highly concentrated, with the BSNL order accounting for 77% of the order book. This increases the risk of revenue booking in case of any delay in order execution or payments from the order. In addition, higher encumbered fixed deposit balances primarily for meeting the margin money requirement and timely release of advances remain the key monitorables from a credit perspective. Any delay in the execution of the projects and stretch in receivables may impact the company's cash flow and liquidity position.

Liquidity position: Adequate

The company's liquidity profile is adequate with sufficient fund flow from operations against the debt obligations. The average working capital limit utilisation has, however, remained high at ~88% of the sanctioned limits for the past 10 months ended January 2023. The recent enhancement in working capital limits and expected release of funds from the ongoing projects provide comfort. The company had free cash and bank balance of Rs. 1.74 crore as on December 31, 2022.

Rating sensitivities

Positive factors – ICRA could upgrade BEPL's ratings if the execution of the current order book is ramped up, resulting in a significant increase in revenues and profitability. A prudent management of the working capital requirement that would improve the liquidity position would be a credit positive. A specific credit metric that could lead to an upgrade includes TOL/TNW below 1.5 times on a sustained basis.

Negative factors – Pressure on the ratings could arise if there are significant delays in project execution, leading to a decline in its scale and operating profitability, or if the liquidity position deteriorates because of the stretched receivables. A specific credit metric that could lead to a downgrade would be an interest coverage below 3.00 times.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology ICRA's approach on consolidation
Parent/Group Support	For arriving at the ratings, ICRA has consolidated the financials of SSEL and its subsidiaries Bondada Adobes Private Limited and Smartbrix Infra Technologies Private Limited.
Consolidation/Standalone	The ratings are based on the consolidated financial statements of the company with its subsidiaries- Bondada Adobes Private Limited and Smartbrix Infra Technologies Private Limited

About the company

BEPL was incorporated in 2012 by Mr. Ragavendar Rao and Mr. B Satyanarayana for carrying out the design and EPC work of telecom towers and providing O&M services to telecom service providers (TSP). In FY2016, the company diversified into the erection of transmission lines and manufacturing of uPVC windows/doors with facilities in Visakhapatnam and Hyderabad. Later, in June 2017, the company set up an AAC block manufacturing plant at Jaggayyapetta, Andhra Pradesh. The AAC blocks are sold under the brand, Smartbrix. However, the business was demerged into Smartbrix Infra Technologies Private Limited for the AAC division and Bondada Adobes Private Limited for the uPVC windows division, effective from April 1, 2021. In April 2018, BEPL ventured into tower manufacturing in Rampally, Medchal district, of Telangana, which includes a tower fabrication division and a galvanising division. In FY2020, the company started solar EPC, where BEPL undertakes system integration services to build solar power projects (rooftop and ground mounted). The company has executed telecom and power projects across 16 states in India.

Key financial indicators (Audited)

BEPL Consolidated	FY2021	FY2022
Operating income (Rs. crore)	287.1	334.4
PAT (Rs. crore)	9.4	10.9
OPBDIT/OI (%)	5.7%	6.2%
PAT (%)	3.3%	3.3%
Total outside liabilities/Tangible net worth (times)	2.5	1.7
Total debt/OPBDIT (times)	2.9	1.8
Interest coverage (times)	4.3	5.9

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 (FY2023)				Chronology of rating history for the past 3 years				
	Type	Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2022 (Rs. crore)	Current rating	Date & rating in FY2022		Date & rating in FY2021		Date & rating in FY2020
				Feb 25, 2023	Nov 05, 2021	Oct 12, 2021	Jun 09, 2020	May 08, 2020	-
1 Long term fund based – term loan	Long-Term	0.00	-	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-
2 Long term - fund based – cash credit	Long-Term	55.00	-	[ICRA]BBB (Stable)	[ICRA]BBB(Stable)	[ICRA]BBB(Stable)	[ICRA]BBB(Stable)	[ICRA]BBB(Stable)	-
3 Short term – non-fund based – others	Short-Term	205.00	-	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	-
4 Unallocated	Long Term/Short Term	-	-	-	-	-	[ICRA]BBB (Stable)/ [ICRA]A3+	[ICRA]BBB (Stable)/ [ICRA]A3+	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Short-term fund-based - Cash credit	Simple
Short-term non-fund based - Others	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 No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Short-term fund based - Cash credit	NA	NA	NA	55.00	[ICRA]BBB(Stable)
NA	Short-term non-fund based - Others	NA	NA	NA	205.00	[ICRA]A3+

Source: Company; **Note:** Amount in Rs. Crore

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-II: List of entities considered for consolidated analysis-

Company Name	PEPL Ownership	Consolidation Approach
Bondada Adobes Private Limited	100%	Full Consolidation
Smartbrix Infra Technologies Private Limited	100%	Full Consolidation

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About ICRA Limited:

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