

Commтел Networks Private Limited

March 28, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term, Fund-based Facilities	26.00	48.00	[ICRA]BBB+(Positive); Outstanding/Assigned
Short-term, Non-fund Based Facilities	23.00	32.00	[ICRA]A2; Outstanding/Assigned
Short-term, Unallocated Facilities	1.00	0.00	-
Long-term/Short-term Interchangeable Facilities	(24.00)	(40.00)	[ICRA]BBB+(Positive)/[ICRA]A2; Outstanding/Assigned
Total	50.00	80.00	[ICRA]BBB+(Positive)/[ICRA]A2; Outstanding/Assigned

*Instrument details are provided in Annexure-1

Note: * Rs. 40 crore sublimits are interchangeable between fund based and non-fund based limits such that the maximum utilization of cash credits/usance LC/Sight LC can not exceed Rs. 40.00 crore, maximum utilisation of Working capital demand loan, Bill discounting can not exceed Rs. 35.00 crore, total utilisation of Export finance can not exceed Rs. 25.00 crore and total utilisation of Bank guarantees should not exceed Rs. 20.00 crore. The total utilisation of all the facilities can not exceed Rs. 40.00 crore.

Rationale

The assigned ratings continues to factors in the significant ramp up in the scale of operation of Commтел Networks Private Limited (CNPL) in FY2018, primarily driven by the execution of a sizeable order, thereby boosting profitability, given better absorption of fixed costs. ICRA expects the improved momentum in top line and profitability to continue, given the healthy turnover achieved in H1 FY2019. ICRA also notes the satisfactory unexecuted order book, coupled with anticipation of better order inflow, because of rise in investment activity in the oil and gas sector with the firming up of oil prices in the last two fiscals. The company has also bagged orders from new customers in FY2018, which are established players in the Middle East, thereby providing potential for new business. The ratings continue to consider the comfortable capital structure due to limited dependence on external debt, which also leads to sound coverage indicators. The ratings further factor in the company's established 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 ratings are, however, constrained by the high customer and sector-specific concentration risks as almost 80-90% 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 continue to factor in the high working capital intensive nature of business, owing to the built-up of debtors position during year end.

Outlook: Positive

The outlook has been revised to Positive given the expected growth in top line and subsequently the profitability, driven by the healthy turnover achieved in H1 FY2019. Further, the revision in outlook factors in the satisfactory unexecuted order book position as well as the potential growth in the same, going forward, on account of newer customer additions, along with an uptick in investment activity in the sector.

The ratings may be revised upward if the company is able to depict a sustained growth in revenue and the order book position, along with an improvement in profitability and better working capital management, which will strengthen the financial risk profile. Conversely, any inability to sustain its growth level and improve its order book position, or any delays in order execution (which may attract liquidity damages and in turn, will adversely affect the profitability metrics) or a stretch in the working capital cycle due elongated receivables, which may weaken the company's liquidity profile, will have a negative impact on the ratings.

Key rating drivers

Credit strengths

Extensive track record in delivering turnkey telecommunications 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.

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. CNPL's strong execution track record has led to significant repeat businesses, further strengthening its relationship with customers. Further, due to successful execution of the contracts for various EPCs, the geographies of these EPCs open up for CNPL.

Healthy ramp-up in scale of operations and satisfactory unexecuted order book provides near term revenue visibility - The company's operating income (OI) increased by ~59% to Rs. 249.45 crore in FY2018 from Rs. 157.37 crore in FY2017. It also achieved a revenue of Rs. 131.24 crore in H1 FY2019 against the revenue of Rs. 55.99 crore in H1 FY2018, primarily due to the execution of big size orders. Furthermore, the company had achieved a revenue of ~Rs. 239 crore till February 2019 and has an unexecuted order book of Rs. 155.78 crore as of February 2019 of which, orders worth ~Rs. 40.4 crore are expected to be executed by March 2019. This provides a near term revenue visibility for the company.

Satisfactory financial risk profile characterised by healthy profitability metrics, comfortable capital structure and strong coverage indicators - The company's profitability, as represented by OPM, remains strong and improved further in FY2018, benefitting from the economics of scale. Increase in profitability and, thereby, retention of profits led to an increase in the company's net worth position. Strong net worth position against a limited dependence on external debt leads to a continued comfortable capital structure. Further, the coverage ratio remained strong primarily due to an increase in the company's profitability in FY2018, against a decline in the overall debt level and subsequent borrowing costs.

Credit challenges

High customer and sector specific concentration risks - The oil and gas sector has been the largest contributor to CNPL's revenues (~80-90%), reflecting high sector-specific concentration risk. In addition, the top 10 customers drive almost 80-90% of the company's consolidated revenues. Hence, any slowdown in investments in the oil and gas sector can impact the company's revenues and profits (as witnessed in FY2016).

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 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. Competitive bidding process may affect the project inflow and overall growth of the company.

High working capital intensity - CNPL's working capital requirement, as reflected by the ratio of net working capital (NWC) to operating income (OI), remained high at 32.23% in FY2018. This is particularly due to high debtors' built-up during year end primarily because of the skewed order book execution, as a significant portion of orders are usually executed in the final quarter of the year. The company offers a credit period of 45-60 days from the date of approval of the invoice. Since the customers of the company are large reputed corporations, it usually does not face delays in receiving the payment upon approval of the invoice. The company gets a credit period of 60 days from its suppliers. Critical component purchases are order backed, but the company stocks common raw materials such as cables and

cabinets. Inventory holding has remained relatively high during FY2018 and in current year due to relatively higher orderbook position. Due to the same, the working capital intensity of the business remains high. The overall utilisation of the sanctioned working capital limits stood high at an average of ~80% during the last 14 months.

Liquidity position

The company did not have any major long-term loans outstanding as on March 31, 2018. However, the working capital intensity of the business is expected to remain high due to the overall elongated receivable position and high inventory levels, which shall lead to high utilisation of the working capital sanctioned facilities. However, considering no major repayment obligations, coupled with considerable cash accruals generated on a YoY basis, backed by strong profitability, the company's overall liquidity profile is expected to remain adequate, going forward.

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 networks across sectors. CNPL also has a UAE-based subsidiary, CommTel Networks FZC, through which it executes orders based in the Middle East and Africa (MEA) region.

In FY2018, the company reported a net profit of Rs. 31.61 crore on an OI of Rs. 249.45 crore, compared to a net profit of Rs. 14.34 crore on OI of Rs. 157.37 crore in the previous year.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	157.37	249.45
PAT (Rs. crore)	14.34	31.61
OPBDIT/ OI (%)	13.88%	16.98%
RoCE (%)	17.81%	28.82%
Total Debt/ TNW (times)	0.45	0.27
Total Debt/ OPBDIT (times)	1.71	0.68
Interest Coverage (times)	4.75	10.05
NWC/ OI (%)	57.45%	32.23%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2019)					Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating		Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
					March 2019	December 2018	November 2017	September 2016	September 2015
1	Fund-based Facilities	Long term	48.00		[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
2	Non-fund Based Facilities	Short term	32.00		[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2
3	Unallocated Facilities	Short term	0.00		-	[ICRA]A2	[ICRA]A2	[ICRA]A2	-
4	Interchangeable Facilities	Long term/ Short term	(40.00)		[ICRA]BBB+ (Positive) / [ICRA]A2	[ICRA]BBB+ (Positive) / [ICRA]A2	[ICRA]BBB+ (Stable) / [ICRA]A2	[ICRA]BBB+ (Stable) / [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				48.00	[ICRA]BBB+(Positive)/ [ICRA]A2
NA	Short-term, Non-fund Based Facilities				32.00	[ICRA]A2
NA	Long-term/Short-term Interchangeable Facilities*				(40.00)	[ICRA]BBB+(Positive)/ [ICRA]A2

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Source: CommTel Networks Private Limited

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