

June 22, 2021

Commtel Networks Private Limited: Ratings reaffirmed; outlook revised to Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based Limits	63.00	63.00	[ICRA]BBB+ reaffirmed; Outlook revised to Positive from Stable
Short-term Non-fund Based Limits	17.00	17.00	[ICRA]A2 reaffirmed
Long-term/Short-term Interchangeable Limits	50.00	55.00	[ICRA]BBB+/[ICRA]A2 reaffirmed; Outlook revised to Positive from Stable
Total	80.00	80.00	

[^] The utilisation of cash credit and letter of credit (sublimit of long-term fund based limits) cannot exceed Rs. 50.00 crore and Rs.55.00 crore, respectively. The utilisation of working capital demand loan (WC DL) and export finance is capped at Rs. 45.00 crore and Rs. 35.00 crore, respectively. The utilisation of bank guarantees should not exceed Rs. 20.00 crore, while for intra-citi SBLC, it is capped at Rs. 15.00 crore. The total utilisation of LC limits (sublimit of short-term non-fund based limits) should not exceed Rs.8.00 crore.

*Instrument details are provided in Annexure-1

Rationale

The revision in outlook to Positive follows ICRA's view that Commtel Networks Private Limited (CNPL) will report steady revenue growth while maintaining its healthy credit profile over the medium term on the back of regular order inflow. With firming up of oil prices, the capital expenditure in the oil and gas sector is expected to support the revenue growth for the company in India as well as overseas. The company reported revenue growth of 27% in FY2021, amid pandemic related challenges. While the order book position moderated to around Rs. 170.0 crore as on March 31, 2021, CNPL received healthy order inflow in the current fiscal till date, thus providing a fillip to the order book and translating into adequate revenue visibility. The ratings derive comfort from the company's healthy financial profile as reflected from sustained healthy profit margin, comfortable capital structure owing to its low reliance on external debt and consequently its healthy debt protection metrics. The ratings continue to take into account CNPL's established operational track record in executing turnkey projects and promoter's vast experience in the industry. The company enjoys established relationships with reputed customers in India and overseas, ensuring repeat orders.

The ratings are, however, constrained by the company's moderate scale of operations and its exposure to high customer and sector-specific concentration risks as almost 80-90% of its revenue is generated by the oil and gas sector and hence the susceptibility of revenues and profits to any slowdown in investments in this sector. The ratings continue to factor in the high working capital intensive nature of business. However, build-up of receivables during the year-end due to asymmetrically high revenue booking in coupled with ageing and quality of receivables alleviate the concern to some extent.

Key rating drivers and their description

Credit strengths

Extensive track record in delivering turnkey telecommunications and surveillance solutions – CNPL is managed by Mr. Shriprakash R. Pandey and other key personnel with vast experience of over three decades in delivering converged telecommunication, security, surveillance, safety systems and related technology solutions to customers in India and overseas in various sectors, such as oil and gas, power, and transportation. The company executed projects in India and overseas.

Established relationships with reputed customers – The company's customer base consists of various reputed companies in the oil and gas industry and established engineering, procurement and construction (EPC) players in the domestic and international markets. Regular order inflows from CNPL's existing customers drives most (~90%) of the company's revenues. Furthermore, with successful execution of contracts for various EPCs, the company has been able to establish itself as a preferred vendor and, thus, execute projects across geographies where these players are present.

Financial risk profile characterised by healthy revenue growth in FY2021, healthy profit margin, comfortable capital structure and strong coverage indicators, with expectation of steady revenue growth – Despite Covid-19 related challenges, at consolidated level CNPL reported healthy revenue growth of 27% and stood at Rs. 267.4 crore) in FY2021 aided by regular order inflow and faster order execution. ICRA expects the company to report steady revenue growth on the back of regular order inflow from the oil and gas industry. At a consolidated level, the operating profit has remained steady in the range of 16–17% during FY2018 to FY2021. The healthy cash accruals coupled with low reliance on external borrowings have resulted in comfortable capital structure. Also, the company did not avail the moratorium extended by the banks during the pandemic. The gearing stood at 0.17 time as on March 31, 2021 (0.21 time as on March 31, 2020). The company's debt protection metrics also remained healthy as reflected by operating profit/interest of 7.56 times (6.01 times in FY2020), net cash accruals/total debt of 103% (69% in FY2020) and total debt/operating profit of 0.81 time (1.09 times in FY2020) in FY2021.

Credit challenges

Moderate scale of operations – The company's scale of operations has remained moderate due to its high reliance on the oil and gas industry, as well as competition from established players in domestic and overseas markets. CNPL reported healthy revenue growth of 27% and its operating income stood at Rs. 267.4 crore in FY2021. With improving crude oil prices, the capital expenditure in the oil and gas sector is expected to support the company's revenue growth in India as well as overseas. While the order book position witnessed a depression to Rs. 172.4 crore as on March 31, 2021, it received healthy additional order inflow of ~Rs. 80 crore in April and May 2021, thereby supporting the revenue visibility.

High customer and sector-specific concentration risks – The company's operations remain exposed to high concentration risk with top five customers accounting for 72% of its revenues in FY2021. In addition, given the company's high reliance on the oil and gas sector (contributing ~90% to the total revenues), its revenues and profit margin remain susceptible to any slowdown in investments in this sector. A hit on CNPL's revenues was witnessed in FY2016, when oil and gas companies had shelved their capex plan owing to the fall in crude oil prices between FY2015 and FY2016. Furthermore, with crude oil prices under pressure in FY2021, the companies deferred their capex plan during H1 FY2021, thus impacting the order inflow during the year.

High working capital intensity – The company's net working capital intensity, reflected as net working capital /operating income, stood high due to high year-end debtors and inventory days. The net working capital intensity stood at 74% in FY2020 and 58% in FY2021. As the company usually generates ~40% to 60% of its sales during the last quarter of the fiscal, the debtors remain high. Nevertheless, ICRA notes that most of these are less than 60 days and the quality of these receivables is healthy. The inventory days stood at 103 days in FY2020 and 77 days in FY2021.

Liquidity position: Adequate

The company's liquidity is **adequate** as reflected by its free cash and bank balance of ~Rs. 4 crore in the Indian entity and ~Rs. 33 crore in its subsidiary as on March 31, 2021. Furthermore, CNPL's fund-based limit utilisation during the past 15 months ending March 31, 2021 stood at 50%, with average undrawn limits of ~Rs. 34.00 crore. ICRA also notes that the total debt mainly includes working capital borrowings and it does not have any repayment obligations. While CNPL's working capital requirement remains high, its healthy accruals are expected to meet the incremental requirement with increasing revenues.

Rating sensitivities

Positive factors – The rating could be upgraded if the company reports healthy revenue growth on the back of regular order inflow while maintaining its profit margin.

Negative factors – The outlook can be revised to stable if the company witnesses a considerable decline in sales, weakening of profitability or deterioration in liquidity position. Decline in ROCE below 15% can also result in a revision of outlook.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of CNPL mentioned in Annexure-2.

About the company

Incorporated in 1998, CNPL is a turnkey provider of converged communication, surveillance and related technology solutions to customers in 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 1,14,000 km of dedicated telecom networks across sectors. CNPL also has a UAE-based subsidiary, CommTel Networks FZC, which executes projects in the Middle East and Africa (MEA), Europe, Asia and North American region.

In FY2020, the company reported a net profit of Rs. 23.04 crore on an OI of Rs. 210.35 crore compared to a net profit of Rs. 35.77 crore on an OI of Rs. 284.09 crore in the previous year. As per provisional results, the company has reported a net profit of Rs. 31.96 crore on an OI of Rs. 267.36 crore in FY2021.

Key financial indicators (Audited)

CNPL Consolidated	FY2020	FY2021*
Operating Income (Rs. crore)	210.35	267.36
PAT (Rs. crore)	23.04	31.96
OPBDIT/OI (%)	16.61%	16.42%
PAT/OI (%)	10.95%	11.95%
Total Outside Liabilities/Tangible Net Worth (times)	0.47	0.35
Total Debt/OPBDIT (times)	1.09	0.81
Interest Coverage (times)	6.01	7.56

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

*Provisional

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 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2019		Date & Rating in FY2018
					June 22, 2021	April 8, 2020	March 28, 2019	December 31, 2018	November 10, 2017
1	Fund-based Limits	Long-term	63.00	-	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)
2	Non-fund Based Limits	Short-term	17.00	--	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2
3	Interchangeable Limits	Long-term and short term	(55.00)*	-	[ICRA]BBB+ (Positive) / [ICRA]A2	[ICRA]BBB+ (Stable) / [ICRA]A2	[ICRA]BBB+ (Positive) / [ICRA]A2	[ICRA]BBB+ (Positive) / [ICRA]A2	[ICRA]BBB+ (Stable) / [ICRA]A2

[^] The utilisation of cash credit and letter of credit (sublimit of long-term fund based limits) cannot exceed Rs. 50.00 crore and Rs.55.00 crore, respectively. The utilisation of working capital demand loan (WC DL) and export finance is capped at Rs. 45.00 crore and Rs. 35.00 crore, respectively. The utilisation of bank guarantees should not exceed Rs. 20.00 crore, while for intra-citi SBLC, it is capped at Rs. 15.00 crore. The total utilisation of LC limits (sublimit of short-term non-fund based limits) should not exceed Rs.8.00 crore.

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based Limits	Simple
Non-fund Based Limits	Very Simple
Interchangeable Limits*	Simple/very simple

*Includes cash credit, letter of credit, WC DL, export finance, bank guarantees and intra-citi SBLC

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: [Click Here](#)

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 Limits				63.00	[ICRA]BBB+(Positive)
NA	Short-term, Non-fund Based Limits				17.00	[ICRA]A2
NA	Long-term/Short-term Interchangeable Limits*				(55.00)	[ICRA]BBB+ (Positive)/ [ICRA]A2

Source: Company

^ The utilisation of cash credit and letter of credit (sublimit of long-term fund based limits) cannot exceed Rs. 50.00 crore and Rs.55.00 crore, respectively. The utilisation of working capital demand loan (WC DL) and export finance is capped at Rs. 45.00 crore and Rs. 35.00 crore, respectively. The utilisation of bank guarantees should not exceed Rs. 20.00 crore, while for intra-citi SBLC, it is capped at Rs. 15.00 crore. The total utilisation of LC limits (sublimit of short-term non-fund based limits) should not exceed Rs.8.00 crore.

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Commnet Networks FZC	100.00%	Full Consolidation

Source: Company

ANALYST CONTACTS

Sabyasachi Majumdar

+91 12 4454 5304

sabyasachi@icraindia.com

Prashant Vasisht

+91 12 4454 5322

prashant.vasisht@icraindia.com

Ankit Jain

+91 12 4454 5865

ankit.jain@icraindia.com

Pragya Sharma

+91 22 6114 3454

pragya.sharma@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401

jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45



Branches



© Copyright, 2021 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.