

Commтел Networks Private Limited

November 10, 2017

ICRA reaffirms ratings of [ICRA]BBB+ (Stable) and [ICRA]A2 for the bank facilities of Commтел Networks Private Limited

Summary of rated instruments

Instrument*	Rated amount (in Rs. crore)	Rating action
Long-term, Fund-based Facilities	26.00	[ICRA]BBB+ (Stable) reaffirmed
Short-term, Non-fund Based Facilities	23.00	[ICRA]A2 reaffirmed
Short term, Unallocated Facilities	1.00	[ICRA]A2 reaffirmed
Long-term/Short-term Interchangeable Facilities	(24.00)	[ICRA]BBB+ (Stable)/[ICRA]A2 reaffirmed

*Instrument details are provided in Annexure-1;

Note: Rs. 24.00 crore sub-limits are interchangeable between fund-based and non-fund based facilities, such that total limits do not exceed Rs. 49.00 crore, subject to cap of Rs.26.00 crore for long-term, fund-based facilities.

Rating action

ICRA has reaffirmed the long term rating of [ICRA]BBB+ (pronounced ICRA triple B plus) assigned to the Rs. 26.00 crore¹ fund based facilities of Commтел Network Private Limited (CNPL)². The outlook on the long-term rating is Stable. ICRA has also reaffirmed the short term rating of [ICRA]A2 (pronounced ICRA A two) assigned to the Rs. 23.00 crore non-fund based facilities and the Rs 1.00 crore unallocated facilities of CNPL. ICRA has further reaffirmed the long-term / short-term ratings of [ICRA]BBB+ (Stable)/[ICRA]A2 assigned to the Rs. 24.00 crore interchangeable facilities of CNPL.

Rationale

The ratings reaffirmation takes in the improved revenue visibility for the company, given the increase in order book position to Rs. 281.5 crore as on August 22, 2017 (vis-à-vis Rs. 160.0 crore as on August 31, 2016), which is majorly executable in FY2018. The rating further draws comfort from the company's consistent profitability track record and comfortable financial profile characterised by low gearing and satisfactory debt coverage indicators. The ratings continue to factor in the established operating track record of the company in delivering turnkey telecommunications solutions, longstanding experience of its key management personnel as well as its established relationships with reputed customers, which has also resulted in repeat orders.

The ratings are, however, constrained by the high order book concentration risk with top project constituting 69% of the total pending order book. Any deferment in the delivery of the same project would impact the revenue of the company in the current year. The ratings are also constrained by the high concentration of the company's order book towards the oil and gas sector and the resultant susceptibility of revenues and profits of the company 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 high receivable period. It also factors in the vulnerability of the company's operating profitability to foreign currency fluctuations due to a large share of USD dominated imports, though the same gets

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.

mitigated due to company's exports which provides a natural hedge. Further ICRA takes note of the fixed price nature of contracts executed by Commтел, the risk of unfavourable fluctuations in raw material prices is largely mitigated as the prices of components are fixed by the company before bidding for contracts.

Although the company has a strong order book position at present, supported by a large order, its ability to win new projects on a regular basis and generate sustainable revenue growth, would be a key rating sensitivity.

Key rating drivers

Credit strengths

- **Established track record in delivering turnkey telecommunications solutions**— CNPL is managed by Mr. Shriprakash Pandey and other key personnel with long 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 customer base of the company consists of various reputed end-customers as well as engineering, procurement and construction (EPC) players in the oil and gas industry. The company's strong execution track record has led to significant repeat business, further strengthening its relationship with its customers. Further, due to successful execution of the contracts for various EPCs, Commтел has established itself its relationship with these EPCs, thereby opening up geographies where these EPCs operate for Commтел.
- **Improved revenue visibility due to healthy order book position** - The company had a pending order book of Rs 281.5 crore as on August 22, 2017 (vis-à-vis Rs. 160.0 crore as on August 31, 2016) with pending order book/operating income ratio of 1.8 times. The same order book will be delivered in the next 12-18 months, reflecting its improved revenue visibility in the medium term.
- **Comfortable financial profile characterised by low gearing and satisfactory debt coverage indicators** - Gearing and interest coverage indicator improved to 0.45x and 4.75x, respectively, in FY2017, as compared to 0.54x and 3.99x over the same period a year ago.

Credit weaknesses

- **High customer and sectoral concentration risks** - Around 69% of the company's existing order book of Rs. 281.5 crore as on August 22, 2017 is from one project. Any deferment in the delivery of the same project would impact the revenue of the company in the current year. However, as per company, factory acceptance testing (FAT) for this project has been scheduled in the month of November 2017 and 70% of the contract value will be delivered in Q4 FY2018. Commтел has received advance of ~50% of the contract value for this project. Moreover, projects from the oil and gas sector constituted 83% of the total revenues of the company in FY2017, reflecting high sectoral concentration risks. Hence, any slowdown in investments in the oil and gas sector can impact the revenues and profits of the company (as witnessed in FY2016).
- **High working capital intensity due to a high receivable period** - CNPL's working capital requirement, as reflected by the ratio of net working capital (NWC) to operating income (OI), remained high at 58% in FY2017. This was primarily because of the skewed order book execution, as a significant portion of orders are usually executed in the final quarter of the year. Coupled with retention money (~5-10% of the contract value), this results in high debtor days. The increased working capital requirements in FY2017 have been largely met through internal accruals.
- **Vulnerability of margins to foreign currency fluctuation and raw material prices** - The company imports a number of components, exposing it to foreign currency fluctuation risk. Although the growing share of CNPL's exports provides a natural hedge. Further, given the fixed price nature of projects, it also remains exposed to raw material price fluctuation risks though the risk is largely mitigated as prices of the components are fixed by Commтел before bidding for the contracts.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria

[Corporate Credit Rating Methodology](#)

About the company

Incorporated in 1998, CNPL is a turnkey provider of converged communication, surveillance and related technology solutions for 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.

Key financial indicators (Audited)

Consolidated	FY2016	FY2017
Operating income (Rs. crore)	137.88	157.37
PAT (Rs. crore)	10.81	14.34
OPBDIT/ OI (%)	12.57%	13.88%
RoCE (%)	16.97%	17.81%
Total Debt/ TNW (times)	0.54	0.45
Total Debt/ OPBDIT (times)	1.86	1.71
Interest coverage (times)	3.99	4.75
NWC/ OI (%)	56%	58%

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth (TNW) + Deferred Tax Liability - Capital Work - in Progress); NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable.

Other information: Not applicable.

Rating history for last three years:

Table

S. No	Name of Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. crore)	Month - year & rating	Month - year & Rating in FY2017	Month - year & Rating in FY2016	Month - year & Rating in FY2015
				November 2017	September 2016	September 2015	September 2014
1	Fund-based Facilities	Long-term	26.00	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)
2	Non-fund Based Facilities	Short-term	23.00	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A3+
3	Unallocated Facilities	Short-term	1.00	[ICRA]A2	[ICRA]A2	-	-
4	Interchangeable Facilities	Long-term/ Short-term	(24.00)	[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
Details of Instruments

Name of the instrument	Date of Issuance	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
Long-term, Fund-based Facilities	-	-	-	26.00	[ICRA]BBB+ (Stable)
Short-term, Non-fund Based Facilities	-	-	-	23.00	[ICRA]A2
Short term, Unallocated Facilities	-	-	-	1.00	[ICRA]A2
Long-term/Short-term Interchangeable Facilities	-	-	-	(24.00)	[ICRA]BBB+ (Stable)/ [ICRA]A2

Source: CNPL

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