

## Bhartia Infra Projects Limited

June 01, 2022

### Ratings

Facilities*	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	150.00	CARE A; Positive (Single A; Outlook: Positive)	Assigned
Long-term bank facilities	200.00 (Enhanced from 16.00)	CARE A; Positive (Single A; Outlook: Positive)	Reaffirmed
Short-term bank facilities	700.00 (Enhanced from 9.00)	CARE A1 (A One)	Reaffirmed
<b>Total Bank Facilities</b>	<b>1,050.00</b> <b>(Rs. One-thousand fifty crore only)</b>		

\* Details of facilities in Annexure-1

### Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings assigned to the bank facilities of Bhartia Infra Projects Limited (BIPL) take into account the extensive experience of the promoters and the company's established track record of more than two decades in executing civil construction projects including tunnels, laying and linking of railway tracks, bridges etc. The ratings derive comfort from BIPL's sustained growth in its scale of operations over the past four years at a compound annual growth rate (CAGR) of 25% and its robust execution abilities amid the challenges from second wave of Covid-19 pandemic, as evidenced by its operational performance during FY22 (provisional; refers to the period April 01 to March 31) with company reporting total operating income (TOI) of Rs.1613 crore for the year ending March 31, 2022, a y-o-y growth of about 60%, with sustenance of healthy profitability margins of over 14%. The ratings also factor in the strong orderbook with reputed clients imparting medium to long term revenue visibility and are supported by comfortable financial risk profile and adequate liquidity position. Furthermore, the ratings are also underpinned by the continued thrust of the Government of India (GoI) on the infrastructure sector, as evidenced in the rapid pace of project awards and huge outlay under the National Infrastructure Pipeline (NIP). BIPL does not have any significant equity commitments as it undertakes projects only on Engineering, Procurement and Construction (EPC) basis, which is expected to continue to be a preferred mode of execution for the company based on clear articulation from the management and would be a key rating monitorable.

The aforementioned rating strengths are, however, tempered by geographical concentration risk, working capital intensive nature of operations and presence in a highly fragmented and competitive industry.

### Rating Sensitivities

**Positive Factors** – Factors that could lead to positive rating action/upgrade:

- Healthy growth in scale of operations (over Rs.2,000 crore) with sustenance of the PBILDT margins above 15%.
- Maintained order book position with revenue visibility of 3.0-3.5x with quality counterparties.
- Strengthening of the capital structure with gearing (Total Debt/ Tangible Network) less than 0.50x on a sustained basis
- Improvement of leverage levels (Total debt/ PBILDT) to below unity.

**Negative Factors** – Factors that could lead to negative rating action/downgrade:

- Significant decline in the scale of operations with contraction in profitability margins (PBILDT margin) to below 12%.
- Deterioration in the capital structure with gearing in excess of 1.20x.
- Elongation in the working capital cycle beyond 120 days.

### Outlook: Positive

The 'Positive' outlook assigned to the long-term rating of BIPL is on account of expected improvement in operational and financial performance of the company on the back of strong orderbook position with strong counterparties, which would result in improvement in leverage and gearing levels of the company. CARE Ratings Ltd. takes cognizance of the company's significant growth in the total operating income over past four years with sustenance of PBILDT margin of over 14% despite the Covid pandemic induced challenges. With the increased thrust of Government of India on the road and railway infrastructure sector in north-east region, BIPL is well placed to tap the opportunities being an established player in the region. The outlook may be revised to 'Stable' if there are delays in execution of orders leading to lower than envisaged income with decline in expected cash accruals of the company.

### Detailed description of the key rating drivers

#### Key Rating Strengths

#### Experienced promoters and established track record of operations

BIPL has an established track record of project execution spanning over two decades in the construction industry across various sectors including railway infrastructure, roads, bridges and civil infrastructure. The company undertakes only EPC projects, many of which are complex, requiring technical expertise for bidding and execution on account of the nature of the projects and

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

landscape of operations. BIPL's core competence is in the execution of railway infrastructure and road projects which formed around 75% of the outstanding orderbook as on January 31, 2022 and has created a niche for undertaking complex projects in North-east region. During the last 10 years, the company has executed orders amounting to more than Rs.3,000 crore undertaken for various government departments including Northeast Frontier Railways (N.F. Railways), National Highways & Infrastructure Development Corporation Ltd. (NHIDCL), City and Industrial Development Corporation (CIDCO), and various state Public Works Department (PWD), and has also received bonus for early completion in some of the projects.

The board of directors include Mr. Ramawatar Bhartia, Managing Director, who has an experience of more than two decades in the construction industry and an experience of more than 5 decades in various sectors and industries. The BoD also includes Mr. Pawan Kumar Bhartia and Mr. Avinash Bhartia, sons of Mr. Ramawatar Bhartia, who are responsible for the administration, financial planning and technical matters related to the execution of the projects. The promoters' extensive industry experience and strong understanding of the north-eastern landscape has led to healthy relationships with customers and suppliers and profitable order bidding.

### **Strong order book position from reputed clients imparting medium to long term revenue visibility**

BIPL has a strong outstanding order book of Rs.5,328.12 crore as on January 31, 2022, which is equivalent to 5.32 times of the total operating income (TOI) of the company for FY21. The work is scheduled to be completed in the next 3-4 years, which gives medium to long term revenue visibility to the company. Additionally, the company was also awarded a project for the construction of road over bridge between Kumarghat and Agartala by N.F. Railways amounting to Rs.102.50 crore during February 2022. BIPL has also made bid for projects floated by N.F. Railways amounting to around Rs.2,800 crore as on March 31, 2022, the results for which are awaited. Furthermore, the orders are from reputed entities, translating into low counterparty credit risk for the company and also carry an in-built price escalation clause, which mitigates the risk of fluctuation in raw material prices to a large extent.

### **Comfortable financial risk profile**

The TOI of the company has grown at a compounded annual growth rate (CAGR) of around 25% from FY18 to FY22 at around Rs.1,600 crore on account of strong project execution despite challenges faced due to the COVID-19 pandemic. While the projects are secured based on tender bidding, with pressure on profitability due to the competitive nature of the industry, BIPL has been able to maintain profitability with PBILDT margins at more than 14% since FY18 on the back of profitable and judicious bidding. The PBILDT margin stood at 15.36% during FY21 and around 14% for FY22 (Prov.), which is expected to be sustained going forward.

The capital structure of BIPL moderated during FY21 on account of increased working capital requirement on the back of COVID-19 pandemic and additional term loans for purchase of equipment due to increased project execution. The total debt of the company stood at Rs.328.61 crore as on March 31, 2021, including term loans, working capital borrowings, mobilization advances, and unsecured interest free loans from promoters and promoter relatives. While the overall gearing of BIPL deteriorated during FY21, the same has improved and stood at around 0.85x (PY:1.05x) as on March 31, 2022 (Prov.), despite the increase in debt levels to Rs.358.76 crore in FY22, due to plough back of profits to networth. Furthermore, the debt coverage indicators of the company remained comfortable with a PBILDT interest coverage ratio of 7.36x (PY: 5.35x) and a total debt to GCA of 2.37x (PY: 3.21x) as on March 31, 2022 (Prov.). While the company has been able to efficiently manage its working capital requirements with prudent management processes, the utilization of its sanctioned limits remained high. BIPL availed emergency COVID loan of around Rs.40 crore during FY21 for its working capital requirements. Going forward, with the strong order book position, the company is expected to generate increased cash accruals leading to improved gearing and leverage levels, which would be a key rating monitorable.

### **Industry Outlook**

The construction industry contributes around 8% to India's Gross Domestic Product (GDP). Growth in infrastructure is critical for the development of the economy, and hence, the construction sector assumes an important role. The enforcement of the nationwide lockdown against the spread of the COVID-19 pandemic adversely impacted the financial and liquidity profiles of players in the industry. The GoI has undertaken several measures for boosting infrastructure development and reviving the investment cycle. The same is expected to gradually result in an increased order inflow and movement of passive orders in existing order books. The focus of the government on infrastructure development is expected to translate into huge business potential for the construction industry in the long-run.

### **Key Rating Weaknesses**

#### **Geographical concentration risk**

BIPL has a major presence in the north eastern states of India with around 84% of the outstanding orderbook concentrated in the region as on January 31, 2022. This exposes the company to geographical concentration risk, hence, any unfavourable changes in state government policies, or any rules and regulations restraining construction activities in this region may affect the company's operations and in turn its cash flow generations. Furthermore, the north-eastern states of India are susceptible to a prolonged monsoon season with heavy rainfall reducing the availability of time for project execution. However, BIPL has been expanding its presence in other states including Bihar, Jharkhand and Maharashtra, which is expected to partly the risk.

The company's orderbook as on January 31, 2022, is fairly diversified w.r.t. sectors having around 25% orders pertaining to bridge and tunnel infrastructure for railways, around 50% orders of road infrastructure and the balance concerning civil infrastructure. Furthermore, majority of the orderbook is with various government departments with a concentration of less than 28% for any of the clients, including N.F. Railways, NHIDCL, CIDCO, etc., ensuring good quality receivables and a low counterparty credit risk.

### Fragmented nature of construction sector with tender-based nature of operations and execution challenges

The infrastructure sector in India is highly fragmented with a large number of unorganised players. This coupled with tendering process in order procurement results in intense competition within the industry, fluctuating revenues and restrictions in profitability. Additionally, continued increase in execution challenges including delays in land acquisition, regulatory clearances, aggressive bidding, interest rate risk and delays in project due to environmental clearance are other external factors that affect the credit profile of industry players. All these are tender-based and the revenues are dependent on the ability of the company to bid successfully for these tenders. Profitability margins come under pressure because of competitive nature of the industry and the volatile nature of input prices; however, the same is mitigated by presence of escalation clause in the orders. Also, there are numerous fragmented & unorganized players operating in the segment which makes the civil construction space highly competitive. However, the promoter's long industry experience of nearly two decades mitigates this risk to some extent. The industry's cyclic nature with linkages to rainfall patterns and consequences of environmental regulations remain an ongoing risk.

### Working capital intensive nature of business

The operations of the company are working capital intensive in nature which is inherent to the construction/ EPC business. The company, however, has been managing its working capital cycle effectively, as evident from the operating cycle at 75 days (PY: 76 days) as on 31st March 2022. BIPL has been able to meet its WC requirements majorly through working capital utilisation along with elongated credit period from its suppliers.

### Liquidity: Adequate

The liquidity position of BIPL is adequate with gross cash accruals of around Rs.150 crore during FY22 (Prov) (PY: Rs.102.23 crore) against debt repayment obligations of around Rs.50 crore for FY23 translating into comfortable debt coverage indicators. Further, the company has unencumbered liquidity of Rs.46.70 majorly parked in FDs as on March 31, 2022. Due to increased project execution during FY22 and issues related to COVID-19 pandemic, the working capital requirement of the company increased on account of which the utilisation of its limits remained high. The average monthly utilisation of BIPL's fund-based and non-fund-based limits stood high at around 90% and 87% respectively for the 12-month period ended March 31, 2022. The total debtors of the company stood moderately high at Rs.211.57 crore as on March 31, 2022 (Prov), as billing for majority of the work executed by BIPL is done during October to March. However, BIPL does not have any major debtors that continue beyond 6 months. The ability of the company to maintain its liquidity position and capital structure considering its plans to bid for projects will be a key rating monitorable.

### Analytical approach: Standalone

### Applicable criteria

[Policy on default recognition](#)

[Financial Ratios – Non-financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Construction](#)

### About the Company

Incorporated in 1999 by Mr. Ramawatar Bhartia, BIPL is a Guwahati based company which operates in the construction sector. BIPL undertakes various civil and transportation projects on EPC basis, and has created a niche for undertaking complex projects in the north-eastern states of India. The company specializes in earthworks, rails, tunnels, bridges and road projects. While the company is predominantly present in the north-eastern regions of India, it has also expanded its presence and is executing projects in West Bengal, Bihar, Jharkhand and Mumbai.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	31-03-2022 (Prov.)
Total operating income	732.11	1,001.59	1,612.59
PBILDT	117.16	153.80	230.31
PAT	39.17	65.45	109.50
Overall gearing (times)	0.70	0.98	0.85
Interest coverage (times)	4.87	5.35	7.36

A: Audited; Prov.: Provisional

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History for last three years:** Please refer Annexure-2

**Covenants of rated instrument / facility:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

**Complexity level of various instruments rated for this company:** Annexure-4

**Annexure-1: Details of Instruments / Facilities**

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - ST-Bank Guarantee	-	-	-	700.00	CARE A1
Fund-based - LT-Cash Credit	-	-	-	200.00	CARE A; Positive
Fund-based - LT-Term Loan	-	-	November 2028	150.00	CARE A; Positive

**Annexure-2: Rating History of last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2022-2023	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020
1	Non-fund-based - ST-Bank Guarantee	ST	700.00	CARE A1	1)CARE A1 (10-May-22)	-	-	-
2	Fund-based - LT-Cash Credit	LT	200.00	CARE A; Positive	1)CARE A; Positive (10-May-22)	-	-	-
3	Fund-based - LT-Term Loan	LT	150.00	CARE A; Positive	-	-	-	-

LT / ST: Long Term / Short Term

**Annexure-3: Detailed explanation of covenants of the rated instrument / facilities**

Name of the Instrument	Detailed explanation
<b>A. Financial covenants</b>	<b>NA</b>
<b>B. Non-financial covenants</b>	<b>NA</b>

**Annexure 4: Complexity level of various instruments rated for this company**

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - ST-Bank Guarantee	Simple

**Annexure 5: Bank Lender Details for this Company**To view the lender wise details of bank facilities please [click here](#)

**Note on complexity levels of the rated instrument:** CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careedge.in](mailto:care@careedge.in) for any clarifications.

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### About CARE Ratings Limited:

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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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