

Bhugan Infracon Private Limited (Revised)

July 03, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	26.46 (Enhanced from 20.48)	CARE BB+; Stable	Revised from CARE BBB; Stable
Long Term / Short Term Bank Facilities	197.00 (Enhanced from 167.00)	CARE BB+; Stable / CARE A4+	Revised from CARE BBB; Stable / CARE A3+

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in the ratings assigned to the bank facilities of Bhugan Infracon Private Limited (BIPL) takes into account moderation in its liquidity profile owing to an increase in the working capital intensity of operations with sustained order inflow and execution, albeit with limited augmentation of working capital limits.

The ratings continue to remain constrained on account of the susceptibility of BIPL's profitability to raw material price volatility, sizeable working capital requirement, risk associated with delays in project execution due to various government approvals and land acquisitions, and its presence in a competitive water and sewage treatment segment.

The ratings, however, continue to derive strength from its experienced promoters, geographically diversified operations with reputed clientele, moderate profitability, leverage and debt coverage indicators, and stable demand outlook due to the thrust of the government on infrastructure development. BIPL's clients are government bodies and large orders in the company's order book consist of projects financed by multilateral financing agencies and fully or partly by the Central Government, thus mitigating the counterparty risk.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in liquidity cushion with timely augmentation of working capital limits commensurate to growth in scale of operations along with maintenance of PBILDT margin of above 10% and TOL/TNW below 2x.

Negative factors

- Delay in execution of ongoing orders resulting in TOI less than Rs.300 crore and PBILDT margin less than 7% on a sustained basis
- Further moderation in liquidity profile
- Any major increase in leverage

Analytical approach: Standalone

Outlook: Stable

The stable outlook reflects CARE Ratings Limited's (CARE Ratings') expectation that the company is likely to sustain the growth in its scale of operations, backed by an adequate order backlog and order execution, along with the sustenance of its moderate leverage and debt coverage indicators in the near to medium term.

Detailed description of the key rating drivers:

Key weaknesses

Susceptibility of profit margins to raw material price volatility

Considering the long gestation period of around 12-48 months in orders awarded to BIPL, its profitability remains susceptible to fluctuations in input prices. However, the presence of a built-in price escalation clause in most of the present orders on hand with an execution timeline beyond 12 months mitigates this risk to a significant extent.

Risk associated with delays in project implementation due to dependence on government approvals

Water and sewage treatment infrastructure projects are subject to various procedural delays due to the requirement of various government approvals. Although such procedural approvals are in the scope of project sponsors, delays in these procedural aspects impact the pace of project execution, thereby affecting the scale of operations.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Presence in a highly competitive water treatment plant (WTP) and sewage treatment plant (STP) construction industry

The WTP and STP construction industry in India is highly competitive, marked by the presence of many players. Furthermore, players in civil construction have also started competing for obtaining orders by entering into joint ventures (JVs) with small players engaged in the water treatment industry; thus, increasing the overall competition in the sector.

Key strengths

Experienced promoters

The promotor of BIPL, Ganesh Patel, has more than 35 years of experience in the engineering, procurement, and construction (EPC) industry which aids the growth of company's operations. Furthermore, the company's management is supported by an experienced and qualified team of professionals. BIPL is an established EPC player in the construction of sewerage and water supply network in India, besides which it has also executed projects across roads, solar power installation, and building works for various Central and state government bodies.

Moderate scale of operations and profitability

The TOI of BIPL grew by around 7% y-o-y to ₹373.56 crore during FY24 (as per the provisional numbers).

The operating profit (PBILDT) margin of the company continued to remain moderate at 10.43% during FY24 (8.89% in FY23), with dependence on subcontracting for project execution (to the extent of 40-60% of the project cost), restricting the margin to an extent.

For FY25, it is expected to register TOI of around Rs.470 crore with range bound profitability.

Further, BIPL had an outstanding order book of around ₹2,200 crore as on March 31, 2024. This translates into adequate revenue visibility over the medium term. EPC works form the majority (over 85%) of the order book, while operations and maintenance (O&M) form the balance.

Geographically diversified operations and reputed clientele

BIPL's operations are geographically diversified, with the current order book including projects across six states, viz., Rajasthan, Uttar Pradesh, Bihar, Madhya Pradesh, Odisha, and Uttarakhand. While some of these projects are funded by multilateral financing agencies, others are government-funded under various schemes such as the National Mission for Clean Ganga (NMCG) and the Smart Cities Mission (SCM), thus mitigating counterparty risk.

Moderate capital structure and debt coverage indicators

The capital structure of BIPL stood moderate, marked by an overall gearing of 0.53x as on March 31, 2024 (0.63x as on March 31, 2023), along with a moderate net worth base of ₹91.73 crore. The TOL/TNW, however, remained high at over 2x as on March 31, 2024 (similar to the FY23 level), owing to the sizeable dependence on subcontracting. The debt coverage metrics remained adequate, marked by an interest coverage ratio (ICR) of 5.40x during FY24 (FY23: 7.94x). The total debt (TD)/gross cash accruals (GCA) also stood moderate at 1.80x in FY24 (Prov.) as against 1.83x in FY23.

Company had earlier extended a Corporate Guarantee of Rs.11.50 crore to a group entity named Bhugan Lifescience Pvt. Ltd. (BLPL), which however has been withdrawn. Further, as articulated by the management, no further funding support is expected to BLPL from BIPL.

Stable demand outlook with government thrust on infrastructure spending

The Government of India (GoI) has been undertaking several steps for boosting infrastructure development and reviving the investment cycle in the segment, which was facing a slowdown since the past couple of years. The thrust of the government on infrastructure development is expected to augur well for construction players with low leverage and demonstrated execution capabilities, in the medium term. Government initiatives in enhancing sewage treatment and water infrastructure across the country continue to offer various opportunities for EPC companies.

Liquidity: Stretched

Liquidity profile of the company has moderated, as indicated by instances of over drawings observed in the fund-based limits. The same is on account of increased working capital intensity owing to growth in scale and order inflow, with only a limited increase in working capital limits. The company's presence in the WTP/STP construction industry results in sizeable working capital requirements, with funds required for margin money for bank guarantees (BGs) and security deposits, apart from debtors and inventory levels. This results in sizeable gross current assets (GCA) days which increased to 244 in FY24 (as against 186 in FY23), indicating increased working capital intensity.

The utilisation of BIPL's non-fund-based limits also remained high at around 85% during the trailing 12 months ended March 31, 2024, with largely full utilisation in select months.

The collection period of BIPL stood stable at 57 days in FY24 (FY23: 58 days) while inventory days increased to 54 days in FY24 (FY23: 23 days). However, owing to an increase in overall working capital requirements, payables days increased significantly in FY24 to 105 (FY23: 67 days), resulting in a reduced operating cycle of 6 days (FY23: 14 days).

The company has an annual scheduled debt repayment obligation of around ₹2-4 crore over the next three years ended FY27, which is expected to be met from its cash accrual generation. It also had an unencumbered cash and balance of ₹10.59 crore as on March 31, 2024 (excluding margin money of ₹57.70 crore).

Environment, social, and governance (ESG) risks: Not applicable

Applicable criteria

[Definition of Default](#)

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

[Rating Outlook and Rating Watch](#)

[Financial Ratios – Non financial Sector](#)

[Construction](#)

[Infrastructure Sector Ratings](#)

[Short Term Instruments](#)

[Withdrawal Policy](#)

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Industrials	Construction	Construction	Civil Construction

Ahmedabad-based BIPL is an EPC company involved in the construction of infrastructure projects across water supply and sewage collection network and treatment systems.

The Founder of BIPL, Ganesh Patel, commenced the EPC business with a proprietorship firm – Bhugan Engineers, in 1996 – and subsequently, incorporated BIPL in October 2013. Although the company has executed varied projects across roads, solar power installation and building works, the company primarily focusses on executing projects in sewage collection, treatment, and water supply systems. BIPL executes projects in various states, including Rajasthan, Bihar, Uttarakhand, Uttar Pradesh, and Madhya Pradesh. The entity partly sublets its work orders to other local sub-contractors.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	March 31, 2024 (UA)
Total operating income	179.59	349.43	373.56
PBILDT	16.95	31.06	38.95
PAT	10.13	20.49	23.56
Overall gearing (times)	0.58	0.63	0.53
Interest coverage (times)	6.14	7.94	5.40

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Brickworks continues to categorize ratings assigned to the bank facilities of BIPL under non-cooperation category vide PR dated May 13, 2024, on account of its inability to carry out a rating surveillance in the absence of the requisite information from the company.

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: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based-Long Term		-	-	-	26.40	CARE BB+; Stable
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	115.00	CARE BB+; Stable / CARE A4+
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	8.00	CARE BB+; Stable / CARE A4+
Non-fund-based - LT/ ST-BG/LC		-	-	-	34.00	CARE BB+; Stable / CARE A4+
Non-fund-based - LT/ ST-BG/LC		-	-	-	40.00	CARE BB+; Stable / CARE A4+
Term Loan-Long Term		-	-	31/03/2025	0.06	CARE BB+; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based-Long Term	LT	26.40	CARE BB+; Stable	-	1)CARE BBB; Stable (20-Sep-23)	1)CARE BBB-; Stable (22-Jun-22)	-
2	Non-fund-based - LT/ ST-BG/LC	LT/ST	34.00	CARE BB+; Stable / CARE A4+	-	1)CARE BBB; Stable / CARE A3+ (20-Sep-23)	1)CARE BBB-; Stable / CARE A3 (22-Jun-22)	-
3	Term Loan-Long Term	LT	0.06	CARE BB+; Stable	-	1)CARE BBB; Stable (20-Sep-23)	1)CARE BBB-; Stable (22-Jun-22)	-
4	Non-fund-based - LT/ ST-BG/LC	LT/ST	40.00	CARE BB+; Stable /	-	1)CARE BBB; Stable / CARE A3+	1)CARE BBB-; Stable / CARE A3	-

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
				CARE A4+		(20-Sep-23)	(22-Jun-22)	
5	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST	115.00	CARE BB+; Stable / CARE A4+	-	1)CARE BBB; Stable / CARE A3+ (20-Sep-23)	1)CARE BBB-; Stable / CARE A3 (22-Jun-22)	-
6	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST	8.00	CARE BB+; Stable / CARE A4+	-	1)CARE BBB; Stable / CARE A3+ (20-Sep-23)	1)CARE BBB-; Stable / CARE A3 (22-Jun-22)	-

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based-Long Term	Simple
2	Non-fund-based - LT/ ST-Bank Guarantee	Simple
3	Non-fund-based - LT/ ST-BG/LC	Simple
4	Term Loan-Long Term	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

Note on the complexity levels of the rated instruments: CARE Ratings 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 for any clarifications.

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About us:

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