Press Release

BLA Projects Private Limited

February 14, 2020

Ratings

Instrument / Facility	Amount (Rs. Crore)	Ratings	Rating Action
Long Term Bank Facilities – Cash Credit	22.60	IVR BBB- / Stable Outlook (IVR Triple B minus with Stable Outlook)	Assigned
Short Term Bank Facilities – Bank Guarantee	89.00	IVR A3 (IVR A Three)	Assigned
Total	**111.60**		

Details of Facilities are in Annexure 1

Detailed Rationale

The aforesaid ratings assigned to the bank facilities of BLA Projects Private Limited (BLAPPL) derives comfort from its experienced promoters, proven project-execution capabilities, reputed clientele with operations spread across multiple locations and strong cash flow visibility backed by its healthy order book. The ratings also notes its healthy operating margin with moderate capital structure and moderate debt protection metrics. However, the rating strengths are partially offset by tender based nature of its business in intensely competitive operating spectrum, volatility witnessed in revenue, capital intensive nature of business and exposure to regulatory risks.

Key Rating Sensitivities:

Upward factors

- Improvement in scale of operations, profitability and cash accruals by securing repeated orders from its existing set of customers through timely and successful completion of contracts on a sustained basis.
- Improvement in the capital structure.

Downward factors

- Deterioration in overall gearing to over 2 times.
- Deterioration in profit margin and debt coverage indicators.
- Any regulatory change impacting the business profile.
- Significant debt funded capex.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced promoters

BLAPPL was promoted by Late Mr. Banowari Lal Agarwalla in 1978, having an experience of around four decades in the mining and infrastructure sector. The business is currently being led by members of the Agarwala family. All the Directors have more than a decade of experience in the said line of business and are supported by a team of qualified and experienced professionals in managing the affairs of the company.

Proven project-execution capabilities with reputed clientele largely mitigating counterparty credit risk

BLAPPL mainly caters to the subsidiaries of Coal India Limited (CIL) in its mining activity related segment. On the other hand, in the infrastructure segment, the company caters to National Highway Authority of India (NHAI), Ministry of Road and Transport and Public Works Department (PWD) of West Bengal, Bihar and Jharkhand. BLAPPL's strong client profile largely mitigates counterparty credit risks and ensures timely receipt of receivables. Moreover, Infomerics derives comfort from the company's track record of contract renewals with existing clients, which demonstrates its strong project-execution capabilities.

Operations spread across multiple locations partially mitigates risks associated with revenue volatility

Geographical diversification of its contracts gives the company flexibility to redeploy unutilised resources from a slow moving/stalled project to a different site, partially mitigating risks associated with revenue volatility from unforeseen mine-specific production disruption.

Strong cash flow visibility backed by healthy order book

BLAPPL's has an order book of Rs.542.57 crore as on September 30, 2019 (2.71 times of its FY19 revenue) spread across different mining sites indicates a healthy revenue visibility for the company.

Average financial risk profile marked by healthy operating margin with moderate capital structure and moderate debt protection metrics

The company's operating margin remained healthy over the past three years with an upward trend. The EBITDA margin and the PAT margin stood satisfactory at 12.18% and 2.40% respectively in FY19. The capital structure of the company remained moderate as on the past three account closing dates. Due to incremental term loans, the overall gearing and TOL/TNW though deteriorated from 0.88x and 1.49x respectively as on March 31, 2018 continued to remain moderate at 1.25x and 1.94x respectively as on March 31, 2019. The moderation in the overall gearing was mainly due to availment of term debts (equipment financing) to fund addition of new machineries for its mining related activities. However, the interest coverage ratio improved from 1.52x in FY18 and remained satisfactory at 2.23x in FY19. Total debt to GCA also improved from 10.66 years in FY18 to 7.51 years in FY19 and remained moderate. High repayment obligations in near to medium term restrict the credit risk profile of the company and achievement of envisaged cash accruals is a key monitorable. However, the profit margins and cash accrual are expected to improve in near term driven by higher inflow from high margin coal mining related activities which is expected to have a favourable impact on the debt protection metrics.

Key Rating Weaknesses

Tender based nature of business and exposure to intense industry competition

The Company is engaged in the civil construction and mining operations. The contracts of the departments are tender based. It poses a significant risk of uncertainty attached in the awarding of tenders. Further, competition from other contractors is intense due to the tender-based nature of the business, thus constraining the business risk profile.

Capital intensive nature of business

The operation of the company is capital intensive in nature as the company has to continuously incur capex for procuring heavy earthmoving equipment (like Dumpers, Excavators, Bulldozers, etc.) and other mining equipment (like Compactor, Drillers, Cranes, etc.) for replacement purpose.

Volatility in revenues

The total operating income of the company remained erratic in the past three fiscals. In order to diversify its operations, the company ventured into infrastructure related activities in the past. On the back of revenue from construction sector the company achieved growth in its total operating income in FY17. However, due to various issues relating to execution of construction projects and to focus on its core competence of overburden removal and coal handling related activities the company gradually stopped taking new contracts and discontinued its construction activities. With decline in construction revenue due to limited execution of civil constructions projects, total operating income moderated in FY18. However, the same witnessed a y-o-y growth of ~30% in FY19 driven by execution of existing civil contracts and increase in revenue from Mining & Material Handling related works. During 9MFY20 the company has achieved a total operating revenue of ~Rs.164 crore. Infomerics expects that the total operating income of the company will grow in the near to medium term driven by smooth execution of new contracts in mining & material handling sector.

Exposed to execution challenges due to regulatory risks associated with mining

Coal mining related operations remain exposed to regulatory risks, which can lead to potential closure in case of violation of statutory norms. Moreover, the mining belts are prone to law and order problems, which may result in unforeseen delays in project execution. Infomerics notes that while the entire responsibility of getting regulatory clearances lies with the mining leaseholder, it may impact the revenue of BLAPPL if the project gets delayed.

Analytical Approach: Consolidated

Applicable Criteria:

Rating Methodology for Infrastructure Companies

Financial Ratios & Interpretation (Non-financial Sector)

<u>Liquidity - Adequate</u>

The liquidity profile of the company is expected to remain adequate though it is marked by its tightly matched accruals to repayment obligations of about Rs.26.00 crore in FY20. The company is expecting to receive additional cash flow from its arbitration awards and refund of retention money which is expected to support the repayment obligations in the near to medium term and maintain its liquidity profile. Further, the average utilisation cash credit limit remained moderate at ~86% during the past 12 months ended October, 2019 indicating a moderate liquidity buffer. Moreover, with a gearing of 1.25 times as on March 31, 2019, the company has sufficient gearing headroom.

<u>About the Company</u>

BLA Projects Private Limited (BLAPPL) was initially established as a proprietorship concern in 1978 by Late Mr. Banowari Lal Agarwalla, based out of Kolkata, which later got converted into a private limited company in 1998. The company is mainly engaged in coal overburden removal and material handling & transportation of coal. The company mostly execute contracts through joint venture route with its other group companies. The company was also engaged in road infrastructure and caters to National Highway Authority of India (NHAI), Ministry of Road and Transport and Public Works Department (PWD) of West Bengal, Bihar and Jharkhand. However, gradually the company discontinued its construction related activities to have more focus on high margin yielding coal overburden removal and currently only executing past contracts.

Financials (Consolidated):

(Rs. crore)

For the year ended* / As On	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	155.06	200.39
EBITDA	16.73#	24.40
PAT	5.98	4.94
Total Debt	69.06	105.53
Tangible Net worth	78.82	84.45
EBITDA Margin (%)	10.79	12.18
PAT Margin (%)	3.75	2.40
Overall Gearing Ratio (x)	0.88	1.25

**Classification as per Infomerics standard*

#Excludes exceptional gain of Rs.7.94 crores.

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years with Infomerics:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Long Term Fund Based Limits – Cash Credit	Long Term	22.60	IVR BBB- / Stable Outlook	-	-	-
2.	Short Term Non-Fund Based Limits – Bank Guarantee	Short Term	89.00	IVR A3	-	-	-

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facilities – Cash Credit	-	-	-	22.60	IVR BBB- / Stable Outlook
Short Term Bank Facilities – Bank Guarantee	-	-	-	89.00	IVR A3