

## Rating Rationale

31 Dec 2019

### Bay Datacom Solutions Pvt Ltd

Brickwork Ratings upgrades/Assigns the ratings for the bank loan facilities of Rs. 53.95 Crore of Bay Datacom Solutions Pvt Ltd ('BDSPL' or 'the company')

#### Particulars

Facilities	Amount (Rs. Crs)		Tenure	Ratings*	
	Previous	Present		Previous	Present
<b>Fund Based</b>					
Cash Credit	7.00	7.00	Long Term	<b>BWR BB+/Stable Downgraded Issuer Not Cooperating*</b>	<b>BWR BBB-/Stable Upgrade</b>
Overdraft	0.45	0.45			
<b>Non Fund Based</b>					
Bank Guarantee I	15.00	15.00	Short Term	<b>BWR A4 Downgraded Issuer Not Cooperating*</b>	<b>BWR A3 Upgrade</b>
Standby Letter of Credit	7.00	7.00			
Bank Guarantee II	14.50	14.50			
Proposed Bank Guarantee	-	10.00		-	<b>BWR A3 Assign</b>
<b>Total</b>	<b>43.95</b>	<b>Rs. 53.95 Crore (Rupees Fifty Three Crore and Ninety Five Lakhs Only)</b>			

\*Issuer Not Cooperating: Based on best available information

1 Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for definition of the ratings

Note: Details of Bank facilities are provided in Annexure I

#### Ratings Action/Outlook

The ratings upgrades/assigns is on account of experience of promoter in the IT & ITES industry, moderate financial risk profile, reputed clientele and liquidity. However, the ratings are constrained by the moderate scale of operations and profitability margins, order book position, presence in highly competitive industry and tender nature of the business and working capital intensive nature of operations.

The 'Stable' outlook indicates a low likelihood of rating change over the medium term. BWR expects that **Bay Datacom Solutions Pvt Ltd**' business risk profile will be maintained over the

medium term. The outlook may be revised to 'Positive' if the company records significantly better-than-expected revenue and profitability and improved working capital management, resulting in better debt coverage metrics and liquidity profile. The outlook may be revised to 'Negative' if the company reports significantly lower than expected performance, resulting in lower than estimated coverage indicators, and a weaker liquidity position. Further, any major debt-funded expenditure resulting in deterioration in capital structure and debt coverage indicators and/or a sharp reversal in industry operating conditions may exert a downward pressure on the rating.

## Key Rating Drivers

### Credit Strengths:

- **Experienced Promoter:** The promoter of Bay Datacom Solutions Pvt Ltd (BDSPL) has over a decades of business experience in the IT & ITES industry. The company has been operational since 1998. Bay Datacom Solutions Pvt Ltd's, experience and a track record of timely execution of orders have helped secure various contracts for the company.
- **Moderate financial risk profile:** Financial risk profile is with adequate capital structure and moderate debt protection metrics marked by, Tangible net worth, Gearing, Interest service coverage ratio and Debt service coverage ratio were around Rs.38.51 Crs, 0.24 times, 2.74 times and 1.64 times respectively as on 31<sup>st</sup> March 2019.
- **Subsidiary concern being in a similar line of business:** Bay Digital PTE, located in singapore is a wholly owned subsidiary of Bay Datacom solutions Pvt Ltd. The company operates in a similar line business, providing a diverse range of products and services in the IT & ITES industry.
- **Reputed clientele:** The company executes contracts primarily for established clients like Central Government related contracts from the Ministry of Defence and Bharat Electronics Limited on project based.

### Credit Challenges:

- **Moderate scale of operations and profitability margins:** Revenue remains moderate at around Rs 67.40 Crs for FY19. Operating profit margin and net profit margin were moderate at 8.47% and 5.96% respectively for FY19.
- **Moderate order book position:** The outstanding order book position of Bay Datacom Solutions Pvt Ltd stood at Rs 109.00 Crs and Bay Digital PTE (Subsidiary) stood at Rs 13.00 Crs as on November, 2019. These projects are expected to be completed within a period of 8 -12 months.
- **Presence in highly competitive industry and tender nature of the business:** The IT industry is highly fragmented with the presence of many organized and unorganized



players. Further, tender based nature of business places pressure on the profitability of the company.

### **Analytical Approach and Applicable Rating Criteria**

As it is a Company, standalone approach has been adopted and BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

### **Rating Sensitivities**

The ability of the company to increase revenues, improve its profitability margins, strengthen its credit risk profile and manage its working capital efficiently would remain the key rating sensitivities.

#### **Positive:**

- Sustained improvement in scale of operations with improved profitability margins and capital structure.
- Specific credit metrics that could lead to an upgrade of BDSPL's rating include (1) Total Debt/Tangible net worth below 1.00 time on a continuous basis, (2) DSCR and ISCR greater than 3.0 times on a continuous basis.

#### **Negative:**

- Specific credit metrics that could lead to a downgrade of BDSPL rating include (1) Decline in profitability margins i.e., Operating margin below 8.00% and net margin below 2.00%, due to lower price realisations, increase in input costs due to changing industry conditions or a rise in capex (2) Total Debt/Tangible Net Worth exceeding 2.0 times and weakening in debt protection metrics with DSCR and ISCR declining below 1.20 times.

### **Liquidity Position: Moderate**

Current ratio was 1.42 times in FY19. The company does not have debt repayment obligations.

### **About the Company**

Bay Datacom Solutions Pvt Ltd or BDSPL is incorporated in 1998. BDSPL is involved in the business of providing enterprise IT infrastructure solutions to various organisations in India. BDSPL's fully owned subsidiary concern "Bay Digital PTE" is based out of Singapore and operates in the same line of business. Bay Datacom products cater to the areas of defence, aerospace, health care and other mission critical projects. The company has executed over 4000 projects. The company broadly works in two verticals, end to end networking and telecom

solutions for defence and other public sector undertakings. The company provides mission critical information and communication systems which comprise of data, voice and video. Bay datacom has worked on automation of complex technologies for Indian Airforce, Army and Navy.

Mr KVS Chalapathi Rao is the Managing Director and CEO of the company. He has over 15 years of business experience in the ITES industry.

### Key Financial Indicators

Key Parameters	Units	31 Mar 2018	31 Mar 2019
Result Type		Audited	Audited
Operating Revenue	Rs. Cr	81.79	67.40
EBITDA	Rs. Cr	6.56	5.71
Profit After Tax	Rs. Cr	3.50	4.02
Tangible Net Worth	Rs. Cr	19.40	38.51
Total Debt/Tangible Net Worth	Times	1.15	0.24
Current Ratio	Times	1.63	1.42

**Key Covenants of the facility rated:** The terms of sanction include standard covenants normally stipulated for such facilities.

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

### Rating History for the last three years

Sl. No.	Facilities	Current Ratings (2019)			Ratings History			
		Type	Amount (Rs. Cr)	Ratings	2019 [ Nov 14, 2019]#	2018 <sup>1</sup> [ Sept 5, 2018]^	2018 <sup>2</sup> [ July 16, 2018]^^	2017
1 2	Cash Credit Overdraft	Long Term	7.00 0.45	<b>BWR BBB- Stable Upgrade</b>	<b>BWR BB+ Stable Downgraded Issuer Not Cooperating*</b>	<b>BWR BBB- Stable Reaffirmed</b>	<b>BWR BBB- Stable Assigned</b>	-
3 4 5	Bank Guarantee I Standby Letter of Credit Bank Guarantee II	Short Term	15.00 7.00 14.50	<b>BWR A3 Upgrade</b>	<b>BWR A4 Downgraded Issuer Not Cooperating*</b>	<b>BWR A3 Reaffirmed</b>	<b>BWR A3 Assigned</b>	-



	Proposed Bank Guarantee		10.00	<b>BWR A3 Assign</b>	-	-	-	-
<b>Total</b>			<b>Rs. 53.95 Crore (Rupees Fifty Three Crore and Ninety Five Lakhs Only)</b>					

*\*Issuer Not Cooperating: Based on best available information # Ratings migrated to 'Not Reviewed' category from 16<sup>th</sup> October 2019*

^ amount rated Rs.43.95 Crs; ^^ amount rated Rs.29.00 Crs;

### Complexity Levels of the Instruments:

For more information, visit [www.brickworkratings.com/download/ComplexityLevels.pdf](http://www.brickworkratings.com/download/ComplexityLevels.pdf)

### Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Services Sector](#)
- [Short Term Debt](#)

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**Bay Datacom Solutions Pvt Ltd**  
**Annexure I: Details of Bank Facilities rated**

Sl. No.	Name of the Bank	Type of Facilities	Long Term (Rs. Cr)	Short Term (Rs. Cr)	Total (Rs. Cr)
1.	<b>HDFC Bank</b>	Cash Credit	7.00	-	7.00
2.	<b>Indusind Bank</b>	Overdraft	0.45	-	0.45
3.	<b>Indusind Bank</b>	Bank Guarantee I	-	15.00	15.00
4.		Proposed Bank Guarantee	-	10.00	10.00
5.		Standby Letter of Credit	-	7.00	7.00
6.	<b>HDFC Bank</b>	Bank Guarantee III	-	14.50	14.50
<b>TOTAL - Rupees Fifty Three Crore and Ninety Five Lakhs Only</b>					<b>53.95</b>

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