

Pratibha Industries Ltd

Ratings

| Facilities | Amount (Rs. crore) | Ratings ¹ | Remarks |
|---|--------------------|---------------------------|----------|
| Bank Facilities- Fund Based-Cash Credit – LT | 1,539.45 | CARE BBB+ (Triple B Plus) | Assigned |
| Bank Facilities-Fund Based - LT Bills discounting/ Bills purchasing | 94.00 | CARE BBB+ (Triple B Plus) | Assigned |
| Bank Facilities-Fund Based-(ECB) | 81.90 | CARE BBB+ (Triple B Plus) | Assigned |
| Bank Facilities- Fund Based-LT- Term Loan | 663.51 | CARE BBB+ (Triple B Plus) | Assigned |
| Bank Facilities- Non Fund Based- ST- LC/BG | 4,796.14 | CARE A3+ (A Three Plus) | Assigned |
| Total | 7175.00 | | |

Rating Rationale

The ratings assigned to the bank facilities of Pratibha Industries Limited (PIL) derive strength from the vast experience of its promoters in the construction industry, successful track record in the execution of orders in multiple segments such as water and urban infrastructure segments and strong order book position and consequent good revenue visibility.

However, the above rating strengths are tempered by moderate financial risk profile with high financial leverage and modest debt coverage indicators. Furthermore, elongated working capital cycle marked by high debtors and inventory levels and consequent high utilization of working capital limits also restrict the ratings.

PIL's ability to improve its capital structure through infusion of funds and improve the liquidity profile by efficient working capital management are the key rating sensitivities.

Background

Pratibha Industries Limited (PIL) was established in 1982 as a partnership firm by Mr.Ajit B. Kulkarni and his associates. The company is involved in the design, engineering, and execution/construction of various projects comprising complex and integrated water transmission and distribution projects, water treatment plants, elevated and underground reservoirs, mass housing projects, commercial complexes, pre-cast design and construction, road construction, passenger water transportation, multilevel car parking, airports, railway stations and retail infrastructure. Water segment forms the major percentage of the total order-book of Rs.8,094 crore.

Credit Risk Assessment

Proven track record in execution of orders in multiple segments of construction industry

The company has executed some of the landmark projects such as turnkey execution of SardarVallabhbhai Patel International Airport, Ahmedabad and Delhi International Airport, Integrated 24x7 water supply schemes for Navi Mumbai, Water Pumping Station at Bhandup, Mumbai, Construction of water supply scheme at Nagpur, Lake tapping at Modak Sagar, Capital Building at Bandra-Kurla Complex, Mumbai, Sunshine tower at Mahalakshmi, Mumbai and storm water pumping station at Irla, Mumbai. In FY14, PIL has also successfully completed the metro project under Pratibha CRFG JV in July 2014, ahead of scheduled.

Healthy order book position with geographic diversification

PIL's pending order book of Rs 8,094 crore (As at June 30, 2014), translating to 3.4 times FY14 revenue provides revenue visibility in the medium term and is to be completed within around 30-36 months. Majority of the total order book is from water supply projects with the remaining from urban infrastructure. The Work In Hand (WIH) for PIL is spread across western and northern India, with 26% of the work emanating from Rajasthan, 37% from Delhi, 16% from Gujarat and 10% from Maharashtra.

Ability to form JVs with reputed companies worldwide

PIL has entered into joint ventures in certain projects which gives it access to technical expertise of these players. The company has entered into joint ventures with several established players in construction industry like Ostu-Stettin GMBH, Russian based infrastructure company- Mosinzhstroj, China Railway First Group Co, Petron Engineering Construction Ltd [Rate CARE BBB (SO)], Far Eastern Mining Company (FEMC), etc.

¹Complete definitions of the ratings assigned are available at www.careratings.com and other CARE publications

Reliance on debt to support project funding resulting in high financial leverage

On a consolidated basis, overall gearing stood at 2.9x as on March 31, 2014 as against 2.27x as on March 31, 2013, on account of increased debt levels to fund the Tunnel Boring Machines (TBMs) for execution of metro rail projects. PIL plans to improve the capital structure through infusion of equity and arrange for reducing debt using fund from sale of non-core assets. Any delay in arranging for the same may be critical from the credit perspective.

Elongated working capital cycle

PIL's business is working capital intensive. During FY14, working capital cycle of PIL increased to 187 days as against 118 days as at the end of FY13. The metro rail projects are capital as well as working capital intensive while the pipeline projects undertaken by the company are working capital intensive as the company maintains high inventory of pipes to ensure timely completion of the projects. As a result, working capital in form of inventory is blocked, leading to high utilisation of sanctioned working capital limits.

Financial Performance

| (Rs. Cr) | | | |
|--|------------------|------------------|------------------|
| For the period ended / as at March 31, | 2012 (12m, A) | 2013 (12m, A) | 2014 (12m, A) |
| Working Results | | | |
| Net Sales | 1,664.61 | 2,157.46 | 2,283.62 |
| Total Operating income | 1,670.05 | 2,176.96 | 2,313.75 |
| PBILDT | 223.51 | 304.26 | 334.48 |
| Interest | 96.07 | 158.66 | 270.38 |
| Depreciation | 22.79 | 31.00 | 44.54 |
| PBT | 110.61 | 119.41 | 37.32 |
| PAT | 81.10 | 82.70 | 15.39 |
| Gross Cash Accruals | 109.56 | 123.14 | 69.61 |
| Financial Position | | | |
| Equity Capital | 19.89 | 20.21 | 20.21 |
| Networth | 566.69 | 665.13 | 687.84 |
| Total capital employed | 1,553.63 | 2,174.40 | 2,726.79 |
| Key Ratios | | | |
| Growth | | | |
| Growth in Total income (%) | 30.06 | 30.35 | 6.28 |
| Growth in PAT (%) | 13.54 | 1.96 | -81.39 |
| Profitability | | | |
| PBILDT/Total Op. income (%) | 13.38 | 13.98 | 14.46 |
| PAT / Total income (%) | 4.86 | 3.80 | 0.67 |
| ROCE (%) | 16.57 | 14.90 | 12.07 |
| Average cost of borrowing (%) | 13.33 | 12.72 | 15.25 |
| Solvency | | | |
| Long Term Debt Equity ratio (times) | 0.75 | 1.81 | 1.38 |
| Overall gearing ratio(times) | 1.74 | 2.27 | 2.96 |
| Interest coverage(times) | 2.33 | 1.92 | 1.30 |
| Term debt/Gross cash accruals(years) | 3.86 | 9.82 | 24.56 |
| Liquidity | | | |
| Current ratio(times) | 1.07 | 1.49 | 1.12 |
| Quick ratio(times) | 0.62 | 0.75 | 0.56 |
| Turnover | | | |
| Average collection period (days) | 45 | 49 | 81 |
| Average creditors (days) | 83 | 89 | 118 |

| | | | |
|--------------------------|-----|-----|-----|
| Average inventory (days) | 126 | 159 | 224 |
| Operating cycle (days) | 88 | 118 | 187 |

The numbers mentioned in Financial Performance (consolidated) section as well as credit risk assessment are adjusted by CARE and may differ from the published financial of the company

Details of Rated Facilities

1. Long-term instruments

1. A. Long term Loans

(Rs. crore)

| Sr. No. | Name of Bank | Rupee term Loan | External Commercial Borrowing |
|---------|--------------------------------|-----------------|-------------------------------|
| 1 | Bank of Baroda | 134.35 | -- |
| 2 | Allahabad Bank | 24.00 | -- |
| 3 | Union Bank | 45.00 | -- |
| 4 | Central Bank | 65.00 | -- |
| 5 | Corporation Bank | 14.65 | -- |
| 6 | JanakalyanSahakari Bank | 0.51 | -- |
| 7 | Standard Chartered Bank | -- | 37.50 |
| 8 | DBS Bank Ltd | -- | 39.60 |
| 9 | IKB Deutsche Industrie Bank | -- | 4.80 |
| 10 | Tata Capital Finance Ltd | 50.00 | -- |
| 11 | Yes Bank | 130.00 | -- |
| 12 | State Bank of Bikaner & Jaipur | 50.00 | -- |
| 13 | Exim Bank | 150.00 | -- |
| Total | 663.51 | 81.90 | |

Total long-term loans (1.A) = Rs. 745.41 crore

1. B. Fund based limits

(Rs. crore)

| Sr. No. | Name of Bank | CC* | PBD/ SBD |
|---------|--|--------|----------|
| 1 | Bank of Baroda | 75.00 | ^50.00 |
| 2 | Axis Bank | 97.02 | -- |
| 3 | Bank of India | 63.00 | -- |
| 4 | ICICI Bank | 85.00 | -- |
| 5 | Punjab National Bank | 33.06 | -- |
| 6 | State Bank of India | 30.00 | -- |
| 7 | Allahabad Bank | 270.00 | -- |
| 8 | Union Bank | 170.00 | -- |
| 9 | Central Bank | 70.00 | -- |
| 10 | Canara Bank | 30.00 | -- |
| 11 | Indian Overseas Bank | 10.00 | -- |
| 12 | Indian Factoring & Finance Solutions Pvt Ltd | -- | #24.00 |
| 13 | Yes Bank | 53.37 | -- |
| 14 | State Bank of Travancore | 20.00 | -- |
| 15 | Syndicate Bank | 25.00 | -- |
| 16 | IndusInd Bank | 16.00 | -- |

| | | | |
|--------------|--------------------|--------------|--------|
| 17 | Lakshmi Vilas Bank | 20.00 | -- |
| 18 | IFCI Factors | | #20.00 |
| 19 | Proposed | 472.00 | |
| Total | 1539.45 | 94.00 | |

* CC=Cash credit; #Purchase Bill Discounting; ^Sales Bill Discounting

Total fund based limits (1.B) = Rs. 1633.45

Total long-term instrument (1.A+1.B) = Rs. 2,378.86 crore

2. Short-term instruments

2. A. Non-Fund based limits

(Rs. crore)

| Sr. No. | Name of Bank | LC/BG* |
|--------------|----------------------|--------|
| 1 | Bank of Baroda | 588.00 |
| 2 | Axis Bank | 550.00 |
| 3 | Bank of India | 502.00 |
| 4 | ICICI Bank | 381.00 |
| 5 | Punjab National Bank | 320.00 |
| 6 | State Bank of India | 204.00 |
| 7 | Allahabad Bank | 270.00 |
| 8 | Union Bank | 270.00 |
| 9 | Central Bank | 308.00 |
| 10 | Canara Bank | 200.00 |
| 11 | Indian Overseas Bank | 190.00 |
| 12 | Yes Bank | 93.00 |
| 13 | Syndicate Bank | 75.00 |
| 14 | Lakshmi Vilas Bank | 20.00 |
| 15 | Proposed | 825.14 |
| Total | 4,796.14 | |

* LC= Letter of Credit BG=Bank Guarantee

Total short-term instruments (2.A)= Rs. 4,796.14 crore

Total instruments rated (1.+2.) =Rs. 7,175.00 crore

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(This follows our brief rational for entity published on 13 November 2014)

Disclaimer:

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