PNC Infratech Limited

February 07, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	1,700.00	CARE AA+; Stable	Revised from CARE AA; Stable (Double A; Outlook: Stable)
Short Term Bank Facilities	5,000.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings has revised the long-term rating while reaffirming the short-term rating assigned to the bank facilities of PNC Infratech Limited (PIL). The revision takes into account the growth in the robust scale of PIL's operations while maintaining healthy operating profitability during FY22 (refers to the period April 1 to March 31) coupled with strong demand prospects expected in medium term led by thrust of the government on infrastructure development. Furthermore, the rating revision also takes cognisance of increase in the operational portfolio of projects on hybrid annuity mode (HAM) forming a larger proportion of operational special purpose vehicles (SPVs) along with a few annuity/toll based self-sustainable projects which strengthen PIL's financial flexibility. CARE Ratings Limited (CARE Ratings) believes that PIL shall monetise certain projects over next one year thereby freeing up growth capital for future investments with minimal reliance on external debt. As articulated by the company, these monetisation initiatives are at various stages of development.

The rating strengths continue to be underpinned by PIL's robust execution abilities and its demonstrated ability to win and simultaneously execute large road projects with complex structures as evidenced by the healthy turnover and order inflow recorded in the past fiscals. The strong order book position aiding revenue visibility has continued to remain a credit strength. Furthermore, around 60% of the order-book of the company is from National Highways Authority of India (NHAI) thereby precluding counterparty risk. The ratings continue to derive comfort from PIL's minimal reliance on fund-based bank debt leading to a strong capital structure and healthy debt coverage indicators. In line with PIL management's philosophy, CARE Ratings expects PIL's reliance on bank debt to continue at minimal levels in the near to medium term.

The ratings are also supported by PIL's strong liquidity position marked by healthy cash and cash equivalent at PIL and its SPVs level and healthy operating cash flow which is expected to enable the company to fund future equity commitments. The divestment of stressed associate concern of PIL, Ghaziabad Aligarh Expressway Private Limited (GAEPL) along with proven experience of the promoters in the road construction industry are the other credit positives.

The above rating strengths, however, continue to remain tempered by geographical concentration risk and segmental concentration risk of PIL's order book. Given PNC's dominant presence in infrastructure EPC segments, inherent challenges faced by the construction sector in the form of right of way availability, environmental clearances, inflationary pressures etc. are other credit weaknesses. Going forward, the pace of addition of build-operate- transfer (BOT) projects and its impact on capital structure of PIL shall be key monitorable.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significant growth in scale of operations on sustained basis with significant segmental and geographical diversification in the revenue stream while maintaining low leverage.

Negative factors

- Increase in Net debt / profit before interest, lease rentals, depreciation and tax (PBILDT) above 1.00x on sustained basis
- Decline in PBILDT margin below 12% on sustained basis
- Significant addition of large sized BOT projects diluting liquidity and debt coverage indicators

Analytical approach: Standalone while factoring in extension of support/ investments to its subsidiary/ associate companies

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

CARE Ratings has adopted a standalone approach while factoring in the financial support and equity commitments to be extended to the BOT/HAM portfolio of the company for analysing credit profile of PIL

Key strengths

Growth in scale of operations during FY22 and H1FY23

PIL's total operating income (TOI) reported growth of 28% during FY22 at about ₹6306 crore in FY22 against ₹4925 crore in FY21 on the back of improved execution pace subsequent to easing out of the challenges from Covid-19 post Q1FY22. The efficient execution of the order book has been supported by the company's sizable fleet of fixed assets as well as efficient working capital management. Furthermore, the PBILDT margin of the company also improved to 14.54% against 13.74% for FY21, which includes an early completion bonus of ₹82.68 crore during FY22. Nonetheless, the profit after tax (PAT) margin of the company appears moderated at 7.10% in FY22 (as against 7.35% in FY21) due to impairment reported with respect to the divestment of Ghaziabad Aligarh Expressway Private Limited (GAEPL). The gross cash accruals (GCA), however, reported a significant increase from ₹304 crore during FY21 to ₹711 crore during FY22.

During H1FY23, the company reported a TOI at ₹3,319 crore against ₹2,866 crore achieved in H1FY22 reporting a growth of about 16%. The company also received an early completion bonus of ₹37 crore during H1FY23 and is also expected to report a progression in scale of operations in FY23 backed by its strong order book position and receipt of appointed dates in majority of its new HAM projects awarded during Q4FY22.

Operational portfolio of 10 Toll/Annuity/HAM projects rendering financial flexibility amid pending equity commitments

As on December 31, 2022 the company has 10 operational road assets comprising both toll and annuity/hybrid annuity-based projects. On the HAM front, during the period FY17-FY22 the company has won 18 projects from NHAI of which the company has commissioned five projects. The HAM and annuity projects of the company have demonstrated a track record of receiving full annuities without deductions or delays. Up until the fiscal FY22, the company had three SPVs requiring support viz. Ghaziabad Aligarh Expressway Private Limited (GAEPL), PNC Delhi Industrial infra–Pvt Ltd (PDIPL) and PNC Bareilly Nainital Highways Private Limited (PBNHPL). However, the issues regarding non-receipt of annuities in PDIPL were resolved in FY22 which led to significant liquidity build-up in the SPV and using the same the company prepaid the entire outstanding debt in the same. Furthermore, the company completed the divestment of GAEPL in May 2022 which has also relaxed the cashflows to the extent of support required in servicing the obligations of this SPV.

Management of PIL has also articulated their plans for stake sale of their operational portfolio which is expected to aid financial flexibility for funding of future equity commitments. Going forward, timely fructification of the stake sale of operational portfolio shall be key monitorable.

The remaining 13 HAM projects of the company are under construction which require a total equity requirement of ₹1,280 crore as on September 30, 2022 which is envisaged to be infused over the next two-three years mainly from healthy operating cash flows. CARE Ratings also expects that the company's sound liquidity and healthy capital structure shall aid in financial flexibility to meet such equity requirements.

Healthy order book position and thrust of Government on roads development.

PIL had a healthy outstanding order book position over ₹19,000 crore as on September 30, 2022, translating into orders equivalent to more than 3x of FY22 revenue. Out of the total orderbook as on stated date, about 60% of the orderbook comprises of road projects from NHAI. The operating environment of the company is also conducive to growth in the next three years with the increased thrust of the government towards the road construction sector. Under the Union budget 2023-24, an allocation of ₹ 2.70 lakh crores to Ministry of Road Transport and Highways (MoRTH) marks nearly a 10% jump in the allocation made under the budget 2022-23.

In the fiscal FY21, PIL had also forayed into water works segment by receiving orders from Government of Uttar Pradesh under 'Jal Jeevan Mission' which is jointly funded by Government of India and Government of Uttar Pradesh. Such projects form about 34% of the orderbook. Although, revenue booking from these projects has only started from Q4FY22 and the company has a limited track record of realisation of payments under these projects, the strategic and social importance of these projects for the government is expected to ensure the availability of funding which shall allow the engineering, procurement and construction (EPC) players to keep their working capital cycle intact.

The company has also been regularly increasing its fixed asset base commensurate with its increase in the order book, which provides it operational flexibility for faster machinery deployment and site mobilisation in order to start and expedite project execution. The strong order book position and track record of timely execution provides adequate revenue visibility for the medium term.

Low leverage, strong debt coverage indicators and efficient working capital management

PIL's working capital efficiency continues to be comfortable with maintained gross current asset days at 129 days (PY: 130 days). The operating cycle also remains moderate at 59 days against 51 days in the previous fiscal. On account of efficient collection efficiency of the company while keeping the unbilled revenue minimal by executing the contracts within envisaged timelines and costs, the working capital limits of the company continue to remain unutilised. The debt profile of the company primarily consists of equipment/vehicle loans and mobilisation advances. The overall gearing continues to be strong and stands at 0.29x as on March 31, 2022 (PY: 0.23x). The interest coverage ratio also strengthened at 11.44x (PY: 8.78x) during FY22. The company has sizable cash/bank balance and liquid investments on its book, which stood at about ₹594 crore as on September 30, 2022. The net debt/PBIDLT stood strong at 0.57x as on March 31,2022. The available liquidity and steady internal cash accrual generation is expected to enable the company to mobilise new work sites without over reliance on bank debt. Going forward, pace of addition of BOT projects and its impact on net debt/PBILDT shall be key monitorable.

Experienced promoters and long track record of operations

The promoters of PIL have significant experience in the construction and infrastructure sector and are supported by a team of qualified engineers with expertise in roads and highways construction. The company has executed over 80 major infrastructure projects in 15 states across India. It has a track record of timely execution of projects and has also received bonus for some of its projects for early completion. There has been a demonstrated consistency of the company's capability to bid for and win large-sized projects from various Government departments or authorities.

Key weaknesses

Geographical and sectoral concentration of order book

The current order book remains concentrated in the state of Uttar Pradesh (about 90% of the total order book as on Sept 30, 2022), out of these projects in U.P., a significant portion of the projects are form central government awarded form NHAI which form about 57% of the orderbook as on stated date. Nevertheless, any unfavourable change in the State Government policies, or any rules and regulations restraining construction activities in this region can affect the company's operations. Nonetheless, the geographical risk is offset by the operational synergies derived by the proximity of projects to one another in terms of facilitating smooth movement of manpower and machinery. Moreover, PIL has track record of executing projects in 15 states including Karnataka, Bihar, Jharkhand, Rajasthan and Gujarat.

The order book continues to remain concentrated in the road segment with 60% projects pertaining to road sector and water works forming about 34% of the orderbook. Going forward, the company expects to bid for more orders in the water supply segment and irrigation works while retaining its larger focus towards roads. In CARE Ratings' opinion such forays would lead to diversification, yet these sectors being new business areas for PIL, their impact on overall profitability and operational efficiency is to be seen.

Exposure to intense competition and other inherent challenges of the construction sector

Thrust of the government on infrastructure especially roads augur well for the prospects of PIL. Nevertheless, competition has intensified in the roads sector with foray of mid-sized players having moderate credit profile over last two years. Owing intensified competition, strong developers have forayed into structurally complex projects in few newer geographies heightening execution risk for them. Furthermore, profitability of PIL is also exposed to disproportionate hike in commodity prices over wholesale price index and bidding aggression owing intense competition.

Liquidity: Strong

On account of sustained healthy cash accruals, PIL's cash and bank balance stood at about ₹594 crore as on September 30, 2022. Furthermore, the liquidity position is also supported by unutilized bank lines of ₹1000 crore. PIL also maintains healthy liquidity at SPV levels post creation of reserves aiding financial flexibility. The company generated gross cash accruals of ₹711 crore during FY22 and ₹347 crore during H1FY23 against which it has debt repayment obligations of around ₹90 crore during FY23 and expected equity commitments of ₹250 crore during H2FY23.

Applicable criteria

Policy on default recognition
Consolidation
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Construction

About the company

PIL, based out of Agra, Uttar Pradesh, having registered office in Delhi, was incorporated in 1999 and is promoted by four brothers- Pradeep Kumar Jain, Naveen Kumar Jain, Chakresh Kumar Jain and Yogesh Kumar Jain. PIL is engaged in diversified construction activities such as construction of highways, bridges, flyovers, airport runways and allied activities. PIL has over two decades of experience in executing road projects and its major clients include National Highway Authority of India (NHAI, rated CARE AAA; Stable), Airports Authority of India (AII), Haryana State Roads & Bridges Development Corporation Limited (HSRDC), Uttar Pradesh State Highway Authority (UPSHA), Delhi State Industrial & Infrastructure Corporation of India (DSIIC), Military Engineering Services (MES), Public Works Department (PWD), UP Expressways Industrial Development Authority (UPEIDA) and Dedicated Freight Corridor Corporation of India (DFCC, rated 'CARE AAA (Is); Stable').

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (UA)^
Total operating income	4,925.42	6,305.50	3319.22
PBILDT	676.65	916.97	465.00
PAT	361.95	447.83	297.60
Overall gearing (times)	0.23	0.29	0.19
Interest coverage (times)	8.78	11.44	12.46

A: Audited; UA: Un-Audited;
Note: Financials classifies as per CARE Ratings' internal standards
^9MFY23 financials of the company are yet to be disclosed

Status of non-cooperation with previous CRA:
Not applicable

Any other information:
Not applicable

Rating history for the last three years: Please refer Annexure-2

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

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-cash credit	NA	-	-	-	1000.00	CARE AA+; Stable
Non-fund-based - ST-BG/LC	NA	-	-	-	5000.00	CARE A1+
Term loan-long term	NA	-	-	May 2026	700.00	CARE AA+; Stable

NA: Not applicable

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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	1000.00	CARE AA+; Stable	-	1)CARE AA; Stable (07-Dec-21)	1)CARE AA; Stable (17-Nov-20) 2)CARE AA-; Stable (15-Sep-20) 3)CARE AA-; Stable (03-Apr-20)	1)CARE AA-; Stable (04-Apr-19)
2	Non-fund-based - ST-BG/LC	ST	5000.00	CARE A1+	-	1)CARE A1+ (07-Dec-21)	1)CARE A1+ (17-Nov-20) 2)CARE A1+ (15-Sep-20) 3)CARE A1+ (03-Apr-20)	1)CARE A1+ (04-Apr-19)
3	Term Loan-Long Term	LT	700.00	CARE AA+; Stable	-	1)CARE AA; Stable (07-Dec-21)	1)CARE AA; Stable (17-Nov-20) 2)CARE AA-; Stable (15-Sep-20) 3)CARE AA-; Stable (03-Apr-20)	1)CARE AA-; Stable (04-Apr-19)

*Long term/Short term.

Annexure-3: Detailed explanation of the 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 - LT-Cash Credit	Simple
2	Non-fund-based - ST-BG/LC	Simple
3	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:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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