P.D. Agrawal Infrastructure Limited

October 07, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term / Short Term Bank Facilities	180.00	CARE BBB+; Stable / CARE A2 (Triple B Plus ; Outlook: Stable / A Two)	Reaffirmed
Total Facilities	180.00 (Rs. One Hundred Eighty Crore Only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of P.D. Agrawal Infrastructure Limited (PDAIL) continue to derive strength from its experienced and resourceful promoters, established track record of over four decades in road construction business, sizeable investment in fixed assets to support execution of contracts, low counterparty risk and presence of price escalation clause in most of the orders on hand. The ratings also continue to take into account PDAIL's comfortable capital structure, debt coverage indicators and adequate liquidity.

The above strengths are, however, partially offset by PDAIL's moderate scale of operations, dip in profitability during FY21 (refers to the period April 01 to March 31), modest orderbook with high geographical concentration, its exposure to real estate sector by way of investment in group concerns, susceptibility of its profitability to raw material price volatility and its presence in an intensely competitive and fragmented construction industry.

CARE also take cognizance of suspension of toll collection at its two debt free toll projects in Punjab from H2FY21 which is likely to resume in the near term.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Growth in its total operating income (TOI) to above Rs.500 crore while maintaining its profitability.
- Improvement in its working capital intensity by way of reduction in its gross current asset days to below 150 days on a sustained basis

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Delay in execution of orders on hand or non-receipt of new orders reducing its TOI to below Rs.150 crore
- Reduction in its PBILDT margin to below 15% on a sustained basis.
- Deterioration in its capital structure leading to an overall gearing beyond 0.75x.
- Increase in its working capital intensity with gross current asset days increasing to beyond 300 days

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters along with established track record of operations: PDAIL is promoted by Mr P.D. Agrawal, who possesses an experience of over four decades in the construction sector. He is assisted by his son, Mr Mahendra Agrawal, who looks after day-to-day operations and overall administration of the company. The promoters are ably supported by team of experienced professionals for project planning, execution and other business operations of the company. PDAIL has an established track record of more than four decades in execution of mid-size infrastructure projects (mainly roads and highways).

Comfortable capital structure and healthy debt coverage indicators: PDAIL has a healthy net worth base with a conservative policy on availing debt for working capital requirements as well as capex requirements. Consequently, its capital structure continued to remain comfortable marked by an overall gearing of 0.16x as at FY21 end (0.22x as at FY20 end). Debt coverage indicators continued to remain comfortable marked by an interest coverage of 13.36x (PY: 10.93x) and total debt to GCA of 1.20x (PY: 1.09x).

Sizeable own fleet of equipment: Over the years, PDAIL has made significant investment in building its own fleet of equipment and machinery required for project execution. PDAIL's gross block of tangible assets increased to Rs.128.44 crore as on March

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

31, 2021 as compared to Rs.46.24 crore as on March 31, 2015. PDAIL now owns a major portion of equipment and machinery required for project execution, which helps the company in timely execution of the projects on hand.

Thrust of the Government on infrastructure development: The construction industry contributes around 8% to India's Gross domestic product (GDP). Growth in infrastructure is critical for the development of the economy and hence, the construction sector assumes an important role. Government of India has undertaken several steps for boosting the infrastructure development and revive the investment cycle. The same has gradually resulted in increased order inflow and movement of passive orders in existing order book. A few measures include relaxation of Foreign Direct Investment (FDI) norms for the sector, infrastructure status accorded to affordable housing and fund allocation for projects like development of 100 smart cities, Housing for All by 2022 and Atal Mission for Urban Rejuvenation and Transformation (AMRUT). In the short to medium term (1-3 years), projects from transportation/highways, housing and urban development sector are expected to dominate the overall business for construction companies. However, challenges with respect to recovery from debtors continue along with funds blocked in arbitration.

Key Rating Weaknesses

Moderate scale of operations with dip in profitability margins: TOI of PDAIL grew by over 38% at Rs.228.77 crore in FY21, backed by healthy order book execution during the year. EPC income was the major contributor to PDAIL's TOI, with contribution of around 88% during FY21 (71% during FY20). Toll income from its two debt-free BOT projects in Punjab declined to Rs.7.42 crore (FY20: Rs.22.14 crore) due to suspension of toll collection during COVID-19 led lockdown and Kisan Andolan from early H2FY21. PDAIL's PBILDT margin declined by 1283 bps at 9.67% in FY21 mainly on account of reduction in high-margin machine rental income and toll income in FY21. Consequently, PAT margin also declined to 5.06% in FY21 (9.87% in FY20).
During 5MFY22, PDAIL has reported TOI of Rs.53.40 crore.

High geographical concentration and low revenue visibility due to dip in order book: As on June 30, 2021, PDAIL had an order book of Rs.189.69 crore (Rs.387.50 crore as on June 30, 2020), reflecting a revenue visibility of less than one year on the basis of FY21 EPC income. Moreover, around 87% of its existing order book is concentrated in MP and Maharashtra. Nevertheless, PDAIL has low counterparty risk as almost entire order book is from government bodies/entities.

Susceptibility of profitability to fluctuations in input prices: Considering execution period of contracts awarded to PDAIL usually range from 18-24 months, its profitability remains susceptible to fluctuations in the input prices. Nevertheless, built in price escalation clause in 90% of its orderbook mitigates the risk to an extent.

Exposure to real estate sector by way of investment in group concerns: PDAIL has invested of Rs.18.25 crore as on March 31, 2021 (Rs.17.92 crore as on March 31, 2020) in two real estate ventures of the group i.e., Suncity Dhoot Developers Pvt. Ltd and Vikram Constructions. Furthermore, PDAIL is also undertaking construction of a small commercial property in Indore with a total saleable area for around 16,000 sq. ft. on a joint-venture basis (with 55% PDAIL's share), wherein the JV partner has provided the land parcel and PDAIL has undertaken the construction work. Total construction cost of Rs.6.57 crore is incurred till FY21 end with no major cost to be incurred going forward.

Presence in an intensely competitive & fragmented construction industry: PDAIL is a mid-sized player operating in an intensely competitive construction industry with presence of large number of contractors. Furthermore, with low counterparty credit risk, relatively stable payment track record and relaxation in bidding criteria after COVID-19 has increased the competition, especially in mid-size projects. Nevertheless, aggressive bidding or delay in project progress due to unavailability of regulatory clearances may affect the credit profile of the company and exert pressure on profitability.

Liquidity: Adequate

PDAIL has adequate liquidity characterized by sufficient cushion in cash accruals vis-à-vis repayment obligations and low reliance on fund-based limits for working capital requirements. PDAIL doesn't have any major term debt and its scheduled repayment for FY21 remains low at around Rs.3 crore as against envisaged GCA of Rs.16-17 crore in FY22. Average utilisation of its sanctioned fund-based limits have remained low at 11% for the trailing twelve months ended July 2021. PDAIL's current ratio and quick ratio as on March 31, 2021 remained comfortable at 2.16x (FY20: 1.70x) and 1.53x (FY20: 0.97x) respectively. The operating cycle and gross current asset days improved to 116 days (FY20: 171 days) at 214 days (FY20: 308 days) respectively in FY21 on account of sustained execution of projects leading to faster rotation of funds.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning Outlook to Ratings and Credit Watch
CARE's Policy on Default Recognition
Rating Methodology- Construction
Criteria for Short Term Instruments
Financial ratios – Non-Financial Sector

[Liquidity analysis of non-financial sector entities](#)
[Rating Methodology- Toll Road Projects](#)

About the Company

Incorporated in 2001, Indore-based PDAIL was promoted by Mr P D Agrawal to take over the existing business of partnership firm M/s P.D. Agrawal (operational since 1978) on a going concern basis. The company is engaged in construction activities (mainly roads and highways) and has been associated with various government authorities like Madhya Pradesh Road Development Corporation (MPRDC), Madhya Pradesh Water Resources Department (MPWRD), Narmada Valley Development Authority (NVDA), Indore Development Authority (IDA) and Indore Municipal Corporation (IMC) for execution of civil projects. PDAIL has two operational toll road projects under Build-Operate-Transfer (BOT) basis in the state of Punjab.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	165.56	228.77
PBILDT	41.71	28.27
PAT	16.34	11.58
Overall gearing (times)	0.22	0.16
Interest coverage (times)	10.93	13.36

A: Audited

Status of non-cooperation with previous CRA: None
Any other information: Not applicable
Rating History for last three years: Please refer Annexure-2
Covenants of rated instrument / facilities: Please refer Annexure-3
Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT/ ST-Cash Credit		-	-	-	5.00	CARE BBB+; Stable / CARE A2
Fund-based - LT/ ST-Cash Credit		-	-	-	15.00	CARE BBB+; Stable / CARE A2
Non-fund-based - LT/ ST-Bank Guarantees		-	-	-	160.00	CARE BBB+; Stable / CARE A2

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT/ ST-Cash Credit	LT/ST	5.00	CARE BBB+; Stable / CARE A2	-	1)CARE BBB+; Stable / CARE A2 (16-Oct-20)	1)CARE BBB+; Stable (23-Sep-19)	1)CARE BBB+; Stable (28-Sep-18)
2	Fund-based - LT/ ST-Cash Credit	LT/ST	15.00	CARE BBB+; Stable / CARE A2	-	1)CARE BBB+; Stable / CARE A2 (16-Oct-20)	1)CARE BBB+; Stable (23-Sep-19)	1)CARE BBB+; Stable (28-Sep-18)
3	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	160.00	CARE BBB+; Stable / CARE A2	-	1)CARE BBB+; Stable / CARE A2 (16-Oct-20)	1)CARE BBB+; Stable / CARE A2 (23-Sep-19)	1)CARE BBB+; Stable / CARE A2 (28-Sep-18)

Annexure-3 Detailed explanation of covenants of the rated instrument / facilities - Not Applicable

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT/ ST-Cash Credit	Simple
2	Non-fund-based - LT/ ST-Bank Guarantees	Simple

Annexure 5: Bank Lender Details

To view the lender wise details of bank facilities please **click here**

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:

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