PNC Infratech Limited

December 07, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	1,700.00	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Short-term Bank Facilities	5,000.00	CARE A1+ (A One Plus)	Reaffirmed
Total Bank Facilities	**6,700.00 (Rs. Six thousand seven hundred crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings assigned to the bank facilities of PNC Infratech Ltd (PIL) takes into account the sustained growth in its operations over the past five years at a compound annual growth rate (CAGR) of 30% and its robust execution abilities amid the challenges from second wave of Covid-19 pandemic, as evidenced by its H1FY22 operational performance, which underscores its ability to win and simultaneously execute large road projects. The ratings continue to factor in the healthy order book position thereby providing visibility for stepped-up revenues in the foreseeable future. Furthermore, around 64% of the order-book of the company is from National Highways Authority of India (NHAI) thereby precluding counterparty risk. The ratings are also underpinned by the continued thrust of the Government on the road construction sector, as evidenced in the rapid pace of project awards, in Engineering, Procurement and Construction (EPC) and Hybrid Annuity Model (HAM) modes and huge outlay under the National Infrastructure Pipeline (NIP). The ratings continue to derive comfort from PIL's minimal reliance on external bank debt leading to a comfortable capital structure and healthy debt coverage indicators. The ratings are also supported by PIL's strong liquidity position which is expected to enable the company to mobilize new work sites without over-reliance on debt as the company executes a larger order book, amid committed equity investments in ongoing HAM projects. Proven experience of the promoters in the road construction industry and their track record of timely execution of projects are other credit positives.

The above rating strengths, however, continue to remain constrained by its geographical concentration risk, significant equity commitments towards HAM projects, the inherent lifecycle risks in the HAM projects, including, inter alia, variability of annuities to changes in bank rate and inflation indices during both execution and operation stages, moderate level of financial support towards few special purpose vehicles (SPVs) in which PIL has majority stake or substantial minority stake apart from inherent cyclical trends associated with the construction sector.

Rating Sensitivities:

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

- Healthy growth in the scale of operations with significantly improved EBITDA Margins to 17-18%, on a sustained basis, and timely progress in HAM projects
- Maintenance of a robust order book position with revenue visibility of 3.0-3.5x with quality counterparties
- Enhanced geographical diversification of projects
- Monetization of operating BOT or HAM projects leading to release of capital and further strengthening of the capital structure

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

- Deterioration in PBILDT margin below 12%
- Delays or execution issues in HAM projects requiring enhanced support beyond the envisaged equity commitments
- Deterioration in the capital structure or substantial decline in the liquidity position
- Aggressive addition of BOT projects resulting in high exposure of its investments and advances against networth on a sustained basis

Detailed description of the key rating drivers

Key Rating Strengths

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 70 major infrastructure projects in 15 states across India. It has a track record of timely execution of projects and has also received

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

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.

Healthy order book position giving medium term revenue visibility
PIL had a healthy outstanding order book position of Rs.15,522.06 crore as on June 30, 2021, translating into orders equivalent to 3.13x of FY21 (refers to the period April 1 to March 31) revenue. The operating environment of the company is conducive to growth in the next three years with the increased thrust of the government towards the road construction sector. Under the Government's National Infrastructure Pipeline (NIP), the substantial outlay on road construction – about 18% of the overall Rs 111 trillion plan – is expected to provide the necessary impetus to companies operating in this segment, like PIL.
PIL has also entered 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. With these orders, the orderbook as on June 30, 2021, of the company is diversified towards water works forming about 24% of the orderbook. The company has been regularly increasing its fixed asset base to commensurate with its increase in order book, which provides it operational flexibility for faster site mobilization and machinery deployment to start and expedite projects. The strong order book position and track record of timely execution provides adequate revenue visibility for the medium term.

Maintained financial performance during FY21; improved operations during Q2FY22
PIL's total operating income remained stable at Rs. 4,953.95 crore in FY21 against Rs. 4,937.95 crore in FY20 despite witnessing disruptions in its operational performance during H1FY21 largely attributed to Covid-19 pandemic. This was primarily on account of efficient execution of the order book supported by its large fleet of fixed assets as well as efficient working capital management during second half of FY21. Furthermore, the profitability parameters of the company remained stable as reflected by PBILDT margin of 14.15% during FY21 against 14.81% (excluding arbitration claims received during the year) in FY20. Nonetheless, the PAT margin of the company moderated at 7.31% in FY21 (as against 9.32% in FY20). The gross cash accruals (GCA) stood around Rs. 470 crore in FY21 as against Rs.574 crore in FY20.
During H1FY22, the company reported a total operating income at Rs.2,901.39 crore against Rs.1,993 crore achieved in H1FY21. During Q2FY22, the company had reported a turnover of Rs.1,632 crore against Rs. 1,068 crore during Q2FY21 recording a growth of about 52%. PIL is expected to post robust growth over the previous year during the FY22, as reflected by strong Q2FY22 execution and expected improvement in the scale of operations during H2FY22 supported by its strong order book position.

Comfortable financial risk profile, strong liquidity position and efficient working capital management
PIL's working capital cycle improved from 51 days during FY20 to 44 days in FY21. The collection period, inventory period and creditor period during FY21 stood at 67 days (PY:64 days), 26 days (PY:19 days) and 49 days (PY: 41 days) respectively. Furthermore, PIL's liquidity profile remains strong with nil utilization of working capital limits for the 12 month-period ending September 2021. Its capital structure and coverage indicators also remained comfortable. The debt profile of the company primarily consists of Equipment/Vehicle loans and mobilization advances. The overall gearing improved at 0.23x as on March 31, 2021 as against 0.40x as on March 31, 2020 due to lower mobilization advance o/s and accretion of surplus to net-worth. The Interest coverage ratio improved at 9.10x (PY: 7.21x) during FY21. The company has significant cash and bank balance on its book, which stood at about Rs.500 crore as on September 30, 2021. The available liquidity and steady internal cash accrual generation is expected to enable the company to mobilize new work sites without over reliance on bank debt.

Operational portfolio of seven BOT projects, further equity requirements are there for under construction HAM projects
The company currently has seven operational (BOT) road assets comprising both toll and annuity based projects. Additionally, during the period FY17-FY21 the company has won 11 projects under HAM from NHAI. The total equity requirement towards these projects is around Rs.1,470 crore, out of which PIL has already infused Rs.665 crore as on September 30, 2021. PIL has to further infuse about Rs.850 crore during FY22-FY24. Considering the scale of operations of the company with annual GCA of about Rs.500-600 crore combined with company's sound liquidity and healthy capital structure, it is expected that PIL is comfortably placed to meet such equity requirements.

Key Rating Weaknesses
Geographical and sectoral concentration of order book
The current order book remains concentrated in the state of Uttar Pradesh (about 73% of the total order book as on June 30, 2021). Hence, any unfavourable change in 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.

The order book continues to remain concentrated in the road segment with 70% projects pertaining to road sector and water works forming about 24% 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 company profitability and operational efficiency is to be seen.

Support provided to some of the group SPVs

The group has seven operational projects under its portfolio as on March 2021 including four toll projects, two annuity projects and one OMT (operate-maintain-transfer) project. Additionally, out of total 11 HAM projects, 4 projects are operational (3 projects receiving provisional commercial operations date during Q1FY22) and 7 are under-construction/implementation stage. In the past, PIL has extended need-based support to its SPVs, especially to Ghaziabad-Aligarh Expressways Private Limited (GAEPL), PNC Delhi Industrial Infra Private Limited (PDIIPL) and PNC Bareilly Nainital Highways Private Limited (PBNHPL). However, of late these SPVs have become largely self-sufficient seeking minimal support from PIL. Nevertheless, in case of any shortfall, PIL would be required to support the SPVs. In GAEPL, PIL and PNC Infra Holdings Limited had signed share purchase agreements (SPAs) for divestment of their stakes in the project. The discussions are under way and the company expects the deal to be consummated in FY22.
Given the healthy liquidity position of PIL and its demonstrated track record of supporting its SPVs in the past, it is expected that such need-based support shall continue to the underlying SPVs.

Liquidity: Strong

On account of sustained healthy cash accruals, PIL's cash and bank balance stood at about Rs.500 crore as on September 30, 2021. Its liquidity is also supported by substantial unutilized bank lines of Rs. 1000 crore. The average fund-based working capital utilization was negligible during the 12-month period ending September 2021. The company generated gross cash accruals of Rs.470 crore during FY21 and Rs. 304 crore during H1FY22 against which it has debt repayment obligations of around Rs.148 crore and expected equity infusion of ~ Rs 300 crore during FY22.

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

Applicable Criteria

Criteria on assigning Rating Outlook and Credit Watch
Rating Methodology- Consolidation and Factoring linkages in Ratings
CARE's Policy on Definition of Default
Financial Ratios – Non-financial Sector
Criteria on rating of Short-Term Instruments
Criteria on rating methodology- Construction Sector
Liquidity Analysis of Non-Financial Sector entities

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- Mr Pradeep Kumar Jain, Mr Naveen Kumar Jain, Mr Chakresh Kumar Jain and Mr 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').

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

Brief Financials (Rs. crore)	FY20 (A)	FY21(A)	H1FY22(UA)
Total operating income	4,937.41	4,953.95	2901.39
PBILDT	824.26	701.33	432.25
PAT	460.30	361.95	228.67
Overall gearing (times) ^	0.40	0.23	NA
Interest coverage (times)	7.21	9.10	10.21

A: Audited, UA: Un-Audited, NA: Not Available, Financials Classified as per CARE Standards
^Including Mobilization Advances as debt

Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
Rating History for last three years: Please refer Annexure-2

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-Cash Credit	NA	-	-	-	1000.00	CARE AA; Stable
Non-fund-based - ST-BG/LC	NA	-	-	-	5000.00	CARE A1+
Term Loan-Long Term	NA	-	-	October, 2025	700.00	CARE AA; Stable

NA: Not Applicable

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-Cash Credit	LT*	1000.00	CARE AA; Stable	-	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+ (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 (17-Nov-20) 2)CARE AA-; Stable (15-Sep-20) 3)CARE AA-; Stable (03-Apr-20)	1)CARE AA-; Stable (04-Apr-19)	-
4	Commercial Paper	ST*	-	-	-	-	-	1)Withdrawn (31-Mar-19)

** Long Term / Short Term*

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Name of the Instrument	Detailed explanation
A. **Financial covenants**	NA
B. **Non-financial covenants**	NA

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

Sr. No	Name of 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: Bank Lender Details for this Company

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

Note on complexity levels of the rated instrument: *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@careratings.com for any clarifications.*

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.