

G R Infraprojects Limited

January 18, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	325.00 <i>(enhanced from Rs.250 crore)</i>	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	3,400.00	CARE AA; Stable / CARE A1+ (Double A ; Outlook: Stable / A One Plus)	Reaffirmed
Short Term Bank Facilities	50.00	CARE A1+ (A One Plus)	Assigned
Total Facilities	3,775.00 (Rs. Three Thousand Seven Hundred Seventy-Five Crore Only)		

Details of Facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the rating assigned to the bank facilities of G R Infraprojects Limited (GRIL) takes into account the sustained growth in its scale of operations with compounded annual growth rate (CAGR) of 40% over the past three years ended March 31, 2020. Furthermore, the operating margin of the company also continued to remain healthy and above average on account of increased execution of HAM projects and backward integration for few raw-materials used in road construction. The operating margins are also supported by ownership of sizeable fleet of equipment and low reliance of GRIL on sub-contracting. The rating also factors in the healthy outstanding order book position of Rs.20,257 crore as on September 30, 2020 which is fairly diversified across various states, with road EPC projects constituting around 56% of the outstanding order book followed by 38% of the order book being constituted by HAM projects and balance 6% by railways. The rating favorably factors in the operational status of three National Highway Authority of India (NHAI) hybrid annuity model (HAM) projects with adequate debt coverage indicators and expectation of achievement of provisional commercial operations date (PCOD) for two more projects by March 2021 thus increasing the prospects for asset monetization. In addition, established track record of the company in executing road projects, experienced management and strong financial risk profile of GRIL marked by low leverage, strong debt coverage indicators as well as liquidity continue to support the ratings.

The above rating strengths, however continues to be constrained on account of working capital intensive operations, its exposure to BOT projects and limited segmental revenue diversification exposing it to the intense competition of the road sector.

Key Rating Sensitivities

Positive Sensitivities:

- Successful monetization of its HAM portfolio resulting into further strengthening of leverage with total debt to PBILDT in the range of 0.50-0.75 times on sustained basis
- Healthy growth in its scale of operations led by segmental diversification of its order book on a sustained basis

Negative Sensitivities:

- Significant increase in debt levels leading to deterioration in total debt /PBILDT on a sustained basis
- Aggressive addition of BOT projects resulting into increasing exposure of its investments and advances to its network on a sustained basis

Detailed description of the key rating drivers

Key Rating Strengths

Continued growth in the scale of operations coupled with healthy profitability

TOI of GRIL registered a CAGR growth of 40% for the past three years ended March 31, 2020. The TOI grew from Rs.3138 crore during FY18 to Rs.6119 crore during FY20 due to timely execution of on-going projects. The operating margins also improved from 19.06% during FY18 to 21.77% during FY20 on account of increase in focus on execution of HAM projects, efficient absorption of overheads due to economies of scale as well as backward integration. Furthermore, the operating margins of the company are also healthy on account of lower proportion of subcontracting work.

The operating income of GRIL was impacted during Q1FY21 owing to lockdown imposed due to COVID-19 resulting into decline in TOI by 34% on a y-o-y basis. Nevertheless, the pace of execution of GRIL picked up during Q2FY21 and GRIL reported TOI of

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

Rs.2457.93 crore during H1FY21 as against TOI of Rs.2929.52 crore during H1FY20. The operating margins although moderated marginally during H1FY21 at 19% (H1FY20: 21%) continued to remain healthy. Labor availability also improved to 90% during October 2020 and execution is expected to pick up from Q3FY21 with completion of monsoon. GRIL has received early completion bonus during October 2020 for early completion of its State HAM project. Hence going forward PBILDT margin are expected to remain healthy and range bound owing to higher execution and regular receipts of bonuses.

Healthy outstanding order book position of the company

GRIL had a healthy outstanding order book position of Rs.20,257 crore as on September 30, 2020 and is declared lowest bidder (L1) in orders to the tune of Rs.1900 crore. This indicates the healthy revenue visibility of 3.31 times of FY20 TOI. The EPC road projects constitutes around 56% of the outstanding order book position, followed by 38% of the order book being constituted by HAM projects and balance 6% by railways. Further, majority of these orders are with price variation clause, shielding GRIL's profitability from adverse movement in prices to an extent. The order book is also geographically diversified with presence in eleven states. Going forward, contract receipt is expected to witness healthy growth in medium term with execution of these projects. However, GRIL's order book position is largely concentrated in the road sector reflecting limited segmental revenue diversification.

Operational status of three of its NHAI HAM with steady project progress of under-construction HAM projects

Currently, GRIL has a portfolio of thirteen build operate transfer (BOT) projects which includes one operational conventional NHAI annuity project, eight HAM projects of which four are under construction NHAI HAM projects, three are operational NHAI HAM project and one is the operational HAM project from Public Works Departments, Government of Rajasthan. Further, balance four HAM projects are recently awarded and are awaiting appointed date.

GR Phagwara Expressway Limited (GPEL; rated CARE AA; Positive) achieved provisional commercial operations date (COD) during February 2020 and has timely received first annuity from NHAI. Porbandar Dwarka Expressway Private Limited (PDEPL) achieved PCOD during April 2020 and has also timely received first annuity from NHAI. Third project Varanasi Sangam Expressway Private Limited (VSEPL; rated CARE A; Stable) has recently achieved PCOD during November 2020. All the three projects have been completed within envisaged cost parameters and are self-sufficient with adequate debt coverage indicators which increases its prospects for asset monetization.

Of the four under construction HAM projects, two projects are progressing as per schedule and are expected to complete within envisaged time frame. One project is progressing with minor delay on account of land issues, while the other project is at the nascent stage of execution.

Low leverage and strong debt coverage indicators

The total debt of GRIL (including mobilization advances) increased from Rs.873 crore as on March 31, 2018 to Rs.1,531 crore as on March 31, 2020 led by higher term debt for addition of machineries. However, TOL/TNW improved marginally from 0.92 times as on March 31, 2018 to 0.81 times as on March 31, 2020. Overall gearing continued to remain low at 0.54 times as on March 31, 2020. Debt coverage indicators further strengthened marked by total debt/ PBILDT of 1.15 times and interest coverage of 9.15 times during FY20.

Established track record in road construction with most of its projects completed ahead of schedule

GRIL has an established presence in road construction spanning over four decades and has executed projects in various states across the country. The company has a sound track record in road construction with most of its projects being completed on time, as it does most of its construction work through its own resources.

GRIL also owns a sizeable fleet of construction equipment, which provides the company with required flexibility in execution of its projects. The company's gross block has steadily increased from Rs.484 crore as on March 31, 2017 to Rs.1520 crore as on March 31, 2020 indicating sizeable investments in fleets with increasing scale of operations. The fixed assets turnover ratio of GRIL also continued to remain healthy during FY20. In addition, GRIL operations are also backwardly integrated with emulsion manufacturing unit, fabrication and galvanizing unit and pole manufacturing unit which has also led to better profitability for GRIL.

Experienced management

GRIL's operations are managed under leadership of Mr. Vinod Kumar Agarwal aged 60 years who have vast experience in the roads construction sector. He is ably supported by his brother Mr. Ajendra Agarwal as a board of director and other three brothers as senior management personnel in GRIL. Although Mr. Vinod Kumar Agrawal oversees the functioning of the company, the responsibilities are fairly divided amongst the family members.

Promoter stake is 85.50 % in GRIL as on March 31, 2020. Board of directors comprise of six members with presence of three independent directors and one nominee director. GRIL has recruited experienced professionals for taking day to day decisions and helping promoters in strategic decision making. However, overall management is family centric.

Various initiatives undertaken by the Government of India (GOI) to improve the prospects of the road construction sector

GOI through National Highways Authority of India (NHAI; rated 'CARE AAA; Stable') has taken various steps to improve the prospects of the road sector. These include bidding of tenders only after 80% land has been acquired for the project, release of 75% of arbitration award against submission of bank guarantee and 100% and exit for developers after two years of project completion. After witnessing steady increase in pace of award during last three years, pace of award has declined in FY19 and FY20 due to moderation in the bidding appetite due to challenging fund raising scenario. EPC is, thus, envisaged to be the preferred mode of award till improvement in fund raising environment and bidding appetite of the developers. Nevertheless, NHAI has made favourable changes in the clauses of model concession agreement of HAM projects in November 2020 and linked interest annuities to average MCLR of top five schedule commercial banks in place of bank rate. This move is expected to resurrect investor confidence and improve bidding appetite for HAM projects. Furthermore, to ease the funding and smoothen the cash flows of the projects during construction phase due to on-going COVID-19 pandemic, NHAI has also permitted to disburse monthly grant/bills against the work billed as against the previous milestone based payments till June 2021.

Liquidity: strong

The operations of GRIL are working capital intensive. Inventory requirement has increased due to increase in number of large sized projects and GRIL's strategy to avail term debt disbursement in the later phase of project execution in HAM projects makes operations working capital intensive. Nevertheless, gross current asset days of GRIL improved marginally to 150 days during FY20 as against 158 days during FY19 and GRIL reported cash flow from operating activities (CFO) of Rs.855 crore during FY20 as against CFO of Rs.391 crore during FY19. In addition, GRIL had free cash and cash equivalent of Rs.512 crore as on March 31, 2020. The average of the maximum utilization of the fund based working capital limits remained moderate at 24% for the trailing twelve months ended September 30, 2020.

Key Rating Weaknesses:**Exposure to BOT projects**

GRIL's exposure to subsidiaries in the form of investment and loans advances has increased from Rs.349 crore as on March 31, 2018 to Rs.880 crore as on March 31, 2020 owing to equity commitments in HAM projects, however it continued to remain moderate at 31% of networth as on March 31, 2020. GRIL would be required to invest around Rs.1280 crore for its eight on-going HAM projects (four under construction and four yet to receive appointed date) over FY21-FY24. GRIL has also extended corporate guarantee of Rs.220 crore to its state HAM project which has self-sustainable operations. Non-linear transmission of bank rate over lending rate has also resulted in delay in the materialization of stake sale of HAM projects. Monetization of the existing HAM assets and extent of exposure in BOT projects along with its impact on the capital structure are key rating monitorable.

Limited segmental revenue diversification

Historically, GRIL has been engaged in road construction in various parts of the country and has largely not diversified in to other segments of the construction industry. As a result, GRIL's revenue has remained concentrated in the road sector. GRIL took upon a project in non-road sector for laying cables in Eastern and North Eastern region of the country in FY16 and project pertaining to construction of railway infrastructure in FY17 and FY18. Still, road sector contributed around 90-95% of GRIL's revenue, making it heavily dependent only on opportunities in this segment of the road construction sector.

Analytical Approach: CARE has considered standalone financials of GRIL while assessing its credit risk profile. However, GRIL's equity commitments in it's under construction SPVs and support if any, required during construction and operational phase has also been suitably factored in its analysis. Further, GRIL has also extended corporate guarantee to its operational state HAM project- Nagaur Mukundgarh Highways Private Limited which has also been factored in the analysis.

The under construction SPVs of GRIL considered in analysis are: GR Akalkot Solapur Highway Private Limited (GASHPL), GR Sangli Solapur Highway Private Limited (GSSHPL), GR Gundugolanu Devarapalli Highway Private Limited (GGDHPL), GR Dwarka Devariya Highway Private Limited (GDDHPL) as well as four recently awarded HAM project which are yet to received appointed date.

Applicable Criteria

[Criteria on assigning 'Outlook' and 'Credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology- Consolidation](#)

[Financial Ratios- Non Financial Sector](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Rating Methodology- Construction Sector](#)

About the Company

Incorporated in 1995, GRIL is engaged in road construction in various states across the country with large part of its present order book being from NHA and MoRTH. In addition to construction of roads on EPC basis, GRIL also undertakes construction of road projects on BOT basis. GRIL has also three emulsion manufacturing plant having an aggregate installed capacity of 90,000 MTPA at Udaipur, Lucknow and Assam. GRIL also has in-house fabrication and galvanizing unit (38,600 MT) as well as pole manufacturing unit. The company also has repair and maintenance workshop at Udaipur.

Brief Financials - Standalone (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	5,006	6,118
PBILDT	1,064	1,332
PAT	596	689
Overall gearing (times)*	0.70	0.54
Interest coverage (times)	10.03	9.15

A: Audited

*including mobilization advances in debt

As per published results, GRIL reported total operating income of Rs.2457.92 crore during H1FY21 (H1FY20: Rs.2929.59 crore) and profit after tax of Rs.211.47 crore (H1FY20: Rs.312.72 crore)

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated Bank facilities/instrument: Detailed explanation of covenants of the rated bank facilities/ instruments are given in Annexure-3

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

Annexure-1: Details of Instruments

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based-Long Term	-	-	-	250.00	CARE AA; Stable
Non-fund-based - LT/ST-BG/LC	-	-	-	3400.00	CARE AA; Stable / CARE A1+
Fund-based - LT-Term Loan	-	-	June 30, 2022	75.00	CARE AA; Stable
Fund-based - ST-Working Capital Demand loan	-	-	-	50.00	CARE A1+

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based-Long Term	LT	250.00	CARE AA; Stable	1)CARE AA; Stable (18-Nov-20)	1)CARE AA-; Positive (28-Jan-20) 2)CARE AA-; Positive (28-Aug-19)	1)CARE AA-; Positive (05-Sep-18)	1)CARE AA-; Positive (05-Jan-18) 2)CARE AA-; Stable (06-Sep-17)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
								3)CARE AA-; Stable (05-Jul-17) 4)CARE AA-; Stable (24-May-17)
2.	Non-fund-based - LT/ST-BG/LC	LT/ST	3400.00	CARE AA; Stable / CARE A1+	1)CARE AA; Stable / CARE A1+ (18-Nov-20)	1)CARE AA-; Positive / CARE A1+ (28-Jan-20) 2)CARE AA-; Positive / CARE A1+ (28-Aug-19)	1)CARE AA-; Positive / CARE A1+ (05-Sep-18)	1)CARE AA-; Positive / CARE A1+ (05-Jan-18) 2)CARE AA-; Stable / CARE A1+ (06-Sep-17) 3)CARE AA-; Stable / CARE A1+ (05-Jul-17) 4)CARE AA-; Stable / CARE A1+ (24-May-17)
3.	Term Loan-Long Term	LT	-	-	-	1)Withdrawn (28-Aug-19)	1)CARE AA-; Positive (05-Sep-18)	1)CARE AA-; Positive (05-Jan-18) 2)CARE AA-; Stable (06-Sep-17) 3)CARE AA-; Stable (05-Jul-17) 4)CARE AA-; Stable (24-May-17)
4.	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (28-Aug-19)	1)CARE AA-; Positive (05-Sep-18)	1)CARE AA-; Positive (05-Jan-18) 2)CARE AA-; Stable (06-Sep-17) 3)CARE AA-; Stable (24-May-17)
5.	Debentures-Non Convertible Debentures	LT	-	-	1)Withdrawn (06-Aug-20)	1)CARE AA-; Positive (28-Aug-19)	1)CARE AA-; Positive (05-Sep-18)	1)CARE AA-; Positive (05-Jan-18) 2)CARE AA-; Stable (06-Sep-17)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
								3)CARE AA-; Stable (24-May-17)
6.	Commercial Paper- Commercial Paper (Carved out)	ST	100.00	CARE A1+	1)CARE A1+ (18-Nov-20)	-	-	-
7.	Fund-based - LT- Term Loan	LT	75.00	CARE AA; Stable	-	-	-	-
8.	Fund-based - ST- Working Capital Demand loan	ST	50.00	CARE A1+	-	-	-	-

Annexure-3: Detailed explanation of covenants of Bank facilities:

Name of the Instrument	Detailed explanation
A. Financial Covenants	Not Applicable
B. Non-Financial Covenants	Not Applicable

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based-Long Term	Simple
2.	Non-fund-based - LT/ ST-BG/LC	Simple
3.	Fund based- Short term	Simple

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

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