PNC Infratech Limited

April 03, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	1,700.00	CARE AA+; Stable	Reaffirmed
Short-term bank facilities	5,000.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Reaffirmation in ratings assigned to bank facilities of PNC Infratech Limited (PIL) continues to be backed by the robust operational performance of PIL while maintaining low leverage. Ratings also remain underpinned with likely release of invested capital in 12 road special purpose vehicles (SPVs) following definitive agreements executed for divestment of 100% equity in these SPVs with Highways Infrastructure Trust (HIT), unlocking funds for future growth. The divestment is expected to translate to an equity value of ₹2,902 crore (including cash) on an investment of ₹1,740 crore.

Rating strengths continue to be fortified by PIL's demonstrated ability to execute large road projects, as evidenced by healthy growth in scale of operations. CARE Ratings Limited (CARE Ratings) takes cognisance of the company's muted order inflow for in FY24. However, the present order book position aids revenue visibility for the next two fiscals and favorable outlook on transport infrastructure augur well for the company's prospects. Over the years, PIL has segmentally diversified business risk profile, while securing and executing large water projects.

Ratings continue to derive comfort from PIL's minimal reliance on bank-debt, leading to a strong capital structure and healthy debt coverage indicators. CARE Ratings expects PIL's reliance on bank debt to continue at minimal levels in the medium term.

Ratings are also supported by PIL's strong liquidity 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 proven experience of promoters in the road construction industry continues to be a credit positive for the company.

However, ratings' strengths continue to remain tempered by geographical concentration risk of PIL's order book. Given PNC's dominant presence in infrastructure engineering, procurement, and construction (EPC) segments, inherent challenges faced by the construction sector from right of way availability, environmental clearances, inflationary pressures among others are other credit weaknesses. Going forward, the pace of addition of build-operate- transfer (BOT) projects and its impact on PIL's capital structure 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 revenue stream, while maintaining low leverage.

Negative factors

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

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

Outlook: Stable

The outlook is expected to remain steady supported by the company's demonstrated execution capability, strong liquidity and minimum reliance on external debt.

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

Detailed description of the key rating drivers:

Key strengths

Growth in scale of operations in FY23 and 9MFY24

PIL's total operating income (TOI) reported growth of 12% in FY23 at about ₹7,061 crore in FY23 against ₹6,306 crore in FY22 on the back of improved execution of the orderbook. The efficient execution of the order book has been supported by the company's sizable fleet of fixed assets and efficient working capital management. The company's PBILDT margin of moderated to 13.51% for FY23 against 14.54% for FY22 (including an early completion bonus of ₹82.68 crore during FY22). Profit after tax (PAT) margin continues to be robust at 8.66% for FY23 against 7.10% in FY22 (low due to impairment reported in divestment of Ghaziabad Aligarh Expressway Private Limited).

In 9MFY24, the company reported a TOI at ₹5,357 crore against ₹4,906 crore achieved in 9MFY24, reporting growth of about 9%. The scale of operations is likely to report health growth in the near term considering the strong orderbook and favourable prospects of transportation infrastructure.

Definitive agreements for divestment of 12 road SPVs

On January 15, 2024, PNC Infratech Limited (PIL) and PNC Infra Holdings Limited (PIHL), a wholly owned subsidiary of PIL executed definitive agreements with Highways Infrastructure Trust (HIT) to divest 100% of their equity interests and management control of 12 Special Purpose Vehicles (SPVs) pertaining to road assets in one or more tranches. These 12 SPVs comprise 11 national highways (NH) hybrid annuity mode (HAM) SPVs and one state highways (SH) build operate transfer (BOT) Toll SPV with approximately 3,800 lane kms in Uttar Pradesh, Madhya Pradesh, Karnataka, and Rajasthan.

The enterprise value of the transaction is ₹9,006 crore together with earn-outs and is subject to adjustments as stipulated in definitive agreements translating to an equity value of ₹2,902 crore (including cash) on an equity investment of ₹1,740 crore. The transaction is subject to certain regulatory and other customary conditions standard to a transaction of this nature.

The likely realisation of funds on consummation of the divestment is expected to occur in one or more tranches. CARE Ratings believes that funds realised will aid in continuation of low reliance on external debt and continue to keep credit metrics stable in line with earlier expectations.

The company's equity commitment for its under-construction HAM portfolio stood at about ₹1,100 crore as on December 31, 2023, which is envisaged to be infused over the next two-three years mainly from healthy operating cash flows and proceeds from ongoing divestment.

Healthy order book position and thrust of Government on roads development

PIL had a healthy outstanding order book position over ₹17,380 crore as on December 31, 2023, translating into orders equivalent to more than 2.48x of FY23 revenue. Of the total orderbook as on stated date, more than 50% of the orderbook comprises road projects from NHAI. The order addition in FY24 has been low, however, the current orderbook is likely to support the scale of operations for at least two fiscals. CARE Ratings believes that PIL is likely to report healthy order addition in FY25 considering the thrust of government on transportation infrastructure. CARE Ratings expects the capital outlay for roads in India to grow from ₹4.10 lakh crore in FY23 to ₹5.85 lakh crore in FY25, implying a healthy Compounded Annual Growth Rate (CAGR) of 19%. Revised concessions for BOT-Toll incorporating favourable features also augur well for improving bidding appetite for developers such as PIL.

PIL forayed into water supply projects in FY21, State water sanitation mission (SWSM) projects, which is jointly funded by Government of India and Government of Uttar Pradesh. Such projects form about 27% of the orderbook. The company has reported a healthy track record of timely realisation of payments under these projects.

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

PIL's working capital efficiency moderated slightly in FY23 however continues to be comfortable. The gross current asset days increased at 161 days (PY: 129 days) primarily due to increased HAM debtors as on March 2023 and sticky receivable of ₹179 crore as on December 31, 2023, from an irrigation project in Andhra Pradesh. The HAM debtors are elongated due to delayed debt disbursement to optimise borrowing costs at group level and expected to be realised in the near term.

The company's debt profile primarily consists of equipment/vehicle loans and some working capital finance in form of bank limits or mobilisation advances. The overall gearing continues to be low and stands at 0.28x as on March 31, 2023 (PY: 0.29x). The interest coverage ratio also strengthened at 14.95x (PY: 11.44x) during FY23. The company has sizable cash/bank balance and liquid investments on its book, which stood at about ₹315 crore as on December 31, 2023. The net debt to PBIDLT stood strong at 0.83x as on March 31, 2023. Going forward, the pace of addition of BOT projects and its impact on net debt to PBILDT shall be key monitorable.

Experienced promoters and long track record of operations

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 90 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 projects for early completion. There has been a demonstrated consistency of the company's capability to bid for and win large-sized projects from Government departments or authorities.

Key weaknesses

Geographical and sectoral concentration of order book

The current order book remains concentrated in Uttar Pradesh (about 65% of the total order book), of these projects in UP, a significant portion is form central government awarded form NHAI. Furthermore, unfavourable change in State Government policies, or rules and regulations restraining construction activities in this region can affect the company's operations. The geographical risk is offset by operational synergies derived from proximity of projects in terms of facilitating smooth movement of manpower and machinery. PIL has track-record of executing projects in 15 states including Karnataka, Bihar, Jharkhand, Rajasthan, and Gujarat.

The order book continues to remain moderately diversified with 70% projects pertaining to road sector and water works and irrigation forming about 30%. Going forward, PIL's ability to significantly scale up operations with greater geographical and segmental diversification shall be key rating monitorable.

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. 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. PIL's profitability is also exposed to disproportionate hike in commodity prices over wholesale price index and bidding aggression owing intense competition.

Liquidity: Strong

PIL has strong liquidity, marked by free cash and bank balance of about ₹315 crore as on December 31, 2023, apart from low utilisation of bank lines at about 20% on an average for a limit ₹1000 crore. The company also earns healthy cash accruals of ₹700-800 crore as against annual debt repayment of about ₹80-100 crore.

Assumptions/Covenants

Not applicable

Environment, social, and governance (ESG) risks

The ESG issues are credit neutral or have a minimal credit impact on PIL. These are listed below:

	Risk factors	Mitigating measures
Environmental	1. Material selection 2. Water consumption 3. Method of construction 4. Waste management 5. Greenhouse emissions 6. Recycling	The company is committed to invest in clean technologies and promoting sustainable practices. There are measures to adopt circular practices for efficient waste management.
Social	1. Workmen safety 2. Community impact 3. Emergency response planning	The company adopts comprehensive risk mitigation measures such as safety training programs, regular safety inspections, and prioritising usage of personal protective equipment (PPE).
Governance	1. Stake holder engagement, supply chain management 2. Internal controls 3. Composition of the board 4. Diversity 5. Code of conduct	The company has defined policies and procedures to ensure effective risk mitigation and promote sound governance and business ethics. About 50% of the company's board comprises independent directors.

Applicable criteria

[Definition of Default](#)
[Factoring Linkages Parent Sub JV Group](#)
[Liquidity Analysis of Non-financial sector entities](#)
[Rating Outlook and Rating Watch](#)
[Financial Ratios – Non financial Sector](#)
[Construction](#)
[Short Term Instruments](#)

About the company and industry

Industry classification

Macro-economic indicator	Sector	Industry	Basic industry
Industrials	Construction	Construction	Civil construction

PIL, based in 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 roads and water projects.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	9MFY24 (UA)
Total operating income	6,306	7,061	5,357
PBILDT	917	954	712
PAT	448	611	611
Overall gearing (times)	0.29	0.28	NA
Interest coverage (times)	11.44	14.95	13.63

A: Audited UA: Unaudited; NA: not available Note: 'these are latest available financial results'

Status of non-cooperation with previous CRA:
Not applicable

Any other information:
Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	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	-	-	June 2025	700.00	CARE AA+; Stable

Annexure-2: Rating history for 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 2023-2024	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
1	Fund-based - LT-Cash Credit	LT	1000.00	CARE AA+; Stable	-	1)CARE AA+; Stable (07-Feb-23)	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)
2	Non-fund-based - ST-BG/LC	ST	5000.00	CARE A1+	-	1)CARE A1+ (07-Feb-23)	1)CARE A1+ (07-Dec-21)	1)CARE A1+ (17-Nov-20) 2)CARE A1+ (15-Sep-20) 3)CARE A1+ (03-Apr-20)

3	Term Loan-Long Term	LT	700.00	CARE AA+; Stable	-	1)CARE AA+; Stable (07-Feb-23)	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)

LT: Long term; ST: Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities- Not applicable

Annexure-4: Complexity level of 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 complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for 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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