Perfect Infracorp Private Limited

June 18, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	18.00	CARE BBB; Stable	Assigned
Long Term / Short Term Bank Facilities	108.00	CARE BBB; Stable / CARE A3+	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Perfect Infracorp Private Limited (PIPL) derives strength from its experienced promoters having an established track record of over three decades in execution of multiple moderate size road construction projects on Engineering Procurement and Construction (EPC) basis and moderate orderbook from nodal agencies of the state government yielding good revenue visibility in the near to medium term translating into low counterparty credit risk.

The ratings also factor continuous growth in PIPL's scale of operations, albeit on a moderate base while sustaining its profitability, its comfortable financial risk profile and adequate liquidity.

The ratings, however, remain constrained on account of PIPL's presence in an intensely competitive construction segment, geographical and segmental concentration risk and implementation risk associated with project awarded under Hybrid Annuity Model (HAM) to its SPV.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Growth in scale of operations marked by total operating income (TOI) of more than Rs.350 crore along with improvement in its profitability above 10% on a sustained basis.
- Growth in its orderbook resulting in revenue visibility above 2.50x on a sustained basis.

Negative factors

- Decline in scale of operations below Rs.200 crore or reduction in PBILDT margin below 7% on a sustained basis.
- Overall Gearing exceeding unity on sustained basis.
- Significant increase in working capital intensity resulting in GCA days above 180 on a sustained basis.

Analytical approach: CARE has analysed the credit profile of PIPL considering its standalone financials while factoring in corporate guarantee extended by PIPL to its SPV i.e. Perfect Kim Mandavi Road Project Private Limited (PKMPL). Equity commitment of under construction SPV and support required during its operational phase has also been factored in the analysis of PIPL.

Outlook: Stable

Stable outlook reflects CARE Ratings Limited's (CARE Ratings') expectations that PIPL shall be able to sustain its credit risk profile on account of its experienced promoters, moderate revenue visibility and comfortable financial risk profile.

Detailed description of the key rating drivers:

Key strengths

Demonstrated track record operations in road construction industry

Promoted and managed by Mr. Dahyabhai Patel and his son Mr Hardik Patel, PIPL has an established track record of more than three decades in executing moderate size road construction contracts for various nodal agencies of the State Government departments in Gujarat, Madhya Pradesh, and Rajasthan. It is a registered class 'AA' and 'Special Category I' contractor with the Gujarat Government. The company has demonstrated strong project execution ability marked by receipt of bonus for completion of EPC contracts before the scheduled completion date.

Moderate orderbook yielding good revenue visibility in the medium term and low counterparty credit risk:

PIPL had an outstanding orderbook of Rs.508 crore as on March 31, 2024, translating into order book to gross billing ratio of 2.1x of Total Operating Income (TOI) for FY24. Entire orderbook of the company is from reputed clientele like Gujarat State Road Development Corporation (GSRDC), Gujarat Industrial Development Corporation (GIDC), Roads & Building Department, Gujarat,

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

translating into low counterparty credit risk. Furthermore, the management is focused on execution of few contracts at a time to ensure its completion before the scheduled completion date. However, the same results in higher clientele concentration risk.

Continuous growth in scale of operations while maintaining its profitability:

PIPL has reported continuous increase in its TOI marked by compounded annual growth rate (CAGR) of 25.06% during last three years ended on March 31, 2024. During FY24, PIPL's TOI grew by 26% on y-o-y basis to Rs.243 crore (FY22: Rs.192 crore) backed by timely execution of orders while maintaining its PBILDT margin at 7.88% in FY24 (7.60% in FY23). During FY24, PIPL reported Gross Cash Accruals (GCA) of Rs.14.69 crore (FY23: Rs. 11.55 crore).

The growth momentum is expected to continue with ahead of schedule execution of project awarded under HAM to its SPV.

Comfortable financial risk profile coupled with moderate debt coverage indicators:

PIPL has a comfortable capital structure marked by low reliance on bank borrowings to fund its working capital requirements and acquire equipment and machinery. Consequently, its overall gearing and total outside liabilities to tangible net worth (TOL/ TNW) was comfortable at 0.18x (PY end: 0.23x) and 0.49x (PY end: 0.60x) respectively as on March 31, 2024.

The debt coverage metrics too remained comfortable marked by interest coverage ratio of 6.70x during FY24 (FY22: 6.59x) and total debt/ PBILDT at 1.11x as on March 31, 2024 as against to 1.44x as on March 31, 2023.

Key weaknesses

Heightened competition along with susceptibility of its profitability to volatile raw material prices

PIPL operates in an intensely competitive construction industry with presence of large number of contractors. With low counterparty credit risk and a relatively stable payment track record of projects funded by government bodies, these EPC projects awarded by the State Government are lucrative for all the contractors and hence are highly competitive. Thus, aggressive bidding by the players limits the profitability. Additionally, continued increase in execution challenges including delays in land acquisition, regulatory clearances, aggressive bidding, interest rate risk and delays in project due to environmental clearance are other external factors that affect the credit profile of industry players.

Geographical and segmental concentration risk

PIPL being a regional player, its entire orderbook is concentrated in Gujarat, with the present order book mainly skewed towards road and bridge construction works, reflecting company's geographical & segmental concentration risk. Concentration of the order book in one state exposes PIPL to any adverse changes in political environment or policy matters that would affect all the projects at large. However, PIPL is favourably placed for execution of projects in Gujarat where it has established in-house managerial resources and local knowledge generally required for the smooth execution of projects. Also, the company is focused on execution of roads and bridges construction contracts, depicting high sectoral concentration and limited diversity in the revenue stream, however, provides required expertise in the sector.

Susceptibility of profitability to volatility in input prices

The execution period of contracts awarded to PIPL usually ranges from 18-24 months. Thus, its profitability remains susceptible to fluctuations in input prices such as that of pipes, steel, cement, sand, etc. Furthermore, around 69% of the unexecuted orderbook does not provide for price escalation.

Equity commitment in under construction HAM project along with associated execution risks:

PIPL has bagged one HAM project in the state of Gujarat, which is expected to be executed over next 18 month through its project SPV. Total cost of the project is around Rs.270 crore, to be funded by govt grant (28%), debt (44%) and balance through promoters' contribution.

The project has already achieved the third milestone as on May 31, 2024, and PIPL has already infused 66.67% of its total equity commitment of Rs.75 crore. Considering the stage of execution of the project, PIPL is exposed to project implementation risk. Furthermore, PIPL has extended irrevocable and unconditional corporate guarantee for the project debt to its SPV, the adjusted overall gearing is expected to remain leveraged in medium term. Nevertheless, factors such as achievement of financial closure for the project debt, availability of entire right of way, and timely disbursement of construction grant provides some comfort from credit perspective.

Liquidity: Adequate

PIPL's liquidity position remained adequate marked by free cash and bank balance of Rs.42.12 crore as on March 31, 2024 (Rs.30.60 crore as on March 31, 2023) other than fixed deposits marked under lien of Rs.5.10 crore as on March 31, 2024. During FY24, PIPL reported GCA and cash flow from operations CFO of Rs.14.69 crore (FY23: 11.55 crore) and Rs.13.02 crore (FY23: 2.42 crore) respectively.

Average utilisation of fund-based limits remained low at 28% for the 12-month period ended in April 2024. Average utilisation of non-based limits stood at 54.90% for 12-month period ended on April 2024.
While working capital intensity continued to remain high on account of blockage of funds as retention money, security deposits and margin money for bank guarantees, PIPL's working capital cycle remained lean at 52 days in FY24 (42 days in FY23) owing to low collection period along with comfortable credit period available from suppliers. Further, gross current asset days stood moderate at 125 days in FY24 (147 days in FY23).

Environment, social, and governance (ESG) risks: Not Applicable

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Financial Ratios – Non financial Sector
Construction
Infrastructure Sector Ratings
Short Term Instruments

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Industrials	Construction	Construction	Civil Construction

Incorporated in April 1992 as Perfect Construction Company by Mr. Dahyabhai Patel, and later on converted to private limited company in December 2012, PIPL is currently engaged mainly in execution of road and bridge construction contracts on EPC and BOT-HAM basis in Gujarat. PIPL is a registered class 'AA' and 'Special Category I' contractor with the Gujarat Government. Operations are supported by Mr Hardik Patel, son of Mr Dahyabhai Patel.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (Prov.)
Total operating income	192.27	242.54
PBILDT	14.62	19.14
PAT	7.48	9.24
Overall gearing (times)	0.23	0.18
Interest coverage (times)	6.59	6.70

A: Audited Prov: Provisional; Note: 'the above results are latest financial results available'

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

Complexity level of 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		-	-	-	18.00	CARE BBB; Stable
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	108.00	CARE BBB; Stable / CARE A3+

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 2024-2025	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
1	Fund-based - LT-Cash Credit	LT	18.00	CARE BBB; Stable				
2	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST	108.00	CARE BBB; Stable / CARE A3+				

LT: Long term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of 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 - LT/ ST-Bank Guarantee	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.

Contact us

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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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