GPT Infraprojects Limited

February 25, 2020

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	554.21	**CARE BB+; Stable (Double B Plus ; Outlook: Stable)**	**Revised from CARE BBB-; Stable (Triple B Minus ; Outlook: Stable)**
Total Facilities	**554.21 (Rs. Five Hundred Fifty Four crore and Twenty One lakh only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to GPT Infraprojects Ltd (GPTIL) takes into account into continued elongation in already high collection period in FY19 & 9MFY20 leading to high working capital cycle and stretch in liquidity as indicated in high utilization of working capital limits on continuous basis and instances of overdrawals in cash credit facilities which were regularized within 30 days.

The rating continues to derive comfort from the long experience of promoters, strong order book position and reputed client portfolio. The rating also factors in the relatively stable operating and financial performance in FY19 (refers to the period April 1 to March 31) and 9MFY20. The rating continues to be constrained by the working capital intensive nature of operations which has led to leveraged capital structure, audit observations/qualifications and profitability susceptible to volatility in input prices. The ability of the company to effectively manage working capital, get steady flow of orders along with their timely execution and realisation of dues remains the key rating sensitivities.

Positive rating sensitivity

- Improvement in Debtors (including Unbilled Revenue and Retention Money) to Sales Ratio less than 40% on sustainable basis.
- Faster execution of existing orders book in hand

Negative rating sensitivity

- Further increase in receivables from existing level.
- Slower than expected execution of exist orders book in hand

Detailed description of the key rating drivers

Key Rating Weaknesses

Working capital intensive nature of the business leading to leveraged capital structure: GPTIL's business is working capital intensive on account of high collection period as payments by the client are made on achievement of certain milestones and blockage of retention money due to long duration of construction projects, which gets released after the successful completion of performance guarantee test period. In addition the company needs to maintain inventory mainly of steel and cement for timely execution of projects. The average collection period (including retention money not due and unbilled revenue) although improved but remained high at 170 days in 9MFY20 (182days in FY19). As a result, the working capital cycle improved but remained stretched at 114 days in 9MFY20 (137 days in FY19). The working capital borrowings (including mobilisation advances) remained high to finance the long operating cycle and there were instances of overdrawals in cash credit facilities which were regularized within 30 days. Overall gearing stood at 1.53x as on December 31, 2019 vis-à-vis 1.79x as on March 31, 2019.

Audit observations/qualifications: The Statutory auditor has raised audit observations as on March 31, 2019 regarding internal financial controls for evaluation of recoverability of unbilled revenue, accrued prices escalations, trade receivables on significantly completed construction contracts which were not operating effectively and could potentially result in the company a) not recognizing appropriate provision in the financial statement in respect of assets that are doubtful of recovery/ credit impaired, b) not appropriately measuring the fair value of those financial assets & c) not appropriately classifying the above assets as non-current.

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

Profitability susceptible to volatility in input prices: Steel and cement are the major inputs, the prices of which are highly volatile in nature and impact profitability. However, GPTIL has a price escalation clause in all the contracts where variation in raw-material prices is linked to Wholesale Price Index and variation in labour cost is linked to Consumer Price Index. The presence of price variation clause mitigates the risk of volatility in input prices to a certain extent.

Key Rating Strengths

Experienced promoters: The promoters are engaged in execution of civil construction work for more than a decade and manufacturing of concrete sleepers for more than 4 decade. The day-to-day affairs of the company are looked after by Mr. Shree Gopal Tantia, MD and Mr. Atul Tantia, Director under the guidance of Mr. Dwarika Prasad Tantia, Chairman and support of experienced professionals.

Strong order book position: The order book position of the company continued to remain strong with the outstanding orders of Rs.1740 crore as on September 30, 2019 (representing 2.97x of total operating income in FY19).

Reputed client portfolio: GPTIL's order book consist of orders mostly for Infrastructure division from reputed public sectors entities like Eastern Railways, Northern Railways, Rail Vikas Nigam Limited, Northeast Frontier Railway, PWD Govt. of Tripura, DVC, NHAI, etc. The company is also getting repeat orders from these entities due to its satisfactory track record. The company also has a substantial order for sleeper division from an established private player - GMR Infrastructure Limited for dedicated Eastern Freight Corridor (U.P) project.

Stable financial performance in FY19 and 9MFY20: GPTIL's total operating income grew by 11.92% y-o-y from 523.79crore in FY18 to Rs. 586.24 crore in FY19 on account of execution of order book in infrastructure division. Decline in PBIDT margin from 14.39% in FY18 to 12.28% in FY19 was on account of price adjustment for steel cost component being linked to RBI indices in existing RVNL contracts which didn't reflect market prices. This resulted in an impact of ~Rs.12crore in PBIDT in FY19. In line with PBIDT Margin, PAT Margin also declined from 3.84% in FY18 to 2.13% in FY19.In 9MFY20, RVNL linked price adjustment for steel component to market price in existing contracts which resulted in PBIDT Margin to improve to 15.60%. The company reported PAT of Rs.14.09 crore on total income of Rs.435.14 crore in 9MFY20.

Liquidity: **Stretched**

The company earned a GCA of Rs.31.38 crore vis-à-vis debt repayment of Rs. 5.82 crore in FY19. Further, debt repayment obligation in FY20 stands at Rs. 5.11 crore (out of which Rs. 3.62 crore already repaid till December 31, 2019) which is expected to be met out of cash accruals. Average fund based utilization for last 12 months ended October, 2019 stood high at ~98% on account of high receivables. Going forward, the Company expects to recover its old debtors which remain crucial from liquidity perspective.

Analytical approach: Consolidated.

The company has operational and financial linkage with the subsidiaries and Joint Venture and under common management.

Applicable Criteria

Criteria on assigning Outlook and credit watch to Credit Ratings
CARE's Policy on Default Recognition
CARE's methodology for manufacturing companies
Rating Methodology – Consolidation and Factoring Linkages in Ratings
Financial ratios – Non-Financial Sector
Rating methodology – Construction Sector

About the Company

GPTIL, erstwhile known as Tantia Concrete Products Private Ltd, incorporated in 1980, operates in two segments – Infrastructure Division and Sleeper Division. Infrastructure division is involved in civil infrastructure projects for roads, bridges, highways, railways, irrigation, etc and Sleeper Division is engaged in manufacturing of concrete sleepers for railway tracks, with an installed capacity of 19,80,000 units of concrete sleepers. GPTIL is the flagship company of the GPT Group. The other major group companies are GPT Healthcare Pvt Ltd and GPT Castings Ltd (GPTCL). GPTHPL operates 4 multi-specialty hospitals (2 in Kolkata, 1 in Howrah and 1 in Agartala) under the banner of 'ILS Hospitals'. GPTCL is engaged in manufacturing of SG cast iron products for Indian Railways.

The day-to-day affairs of the company are looked after by Mr. Shree Gopal Tantia, MD, and Mr. Atul Tantia, Executive Director, along with the support from experienced professionals under the guidance of Mr. Dwarika Prasad Tantia, Chairman.

Brief Financials - Consolidated (Rs. crore)	FY18 (A)	FY19 (A)	9MFY20 (U/A)
Total operating income	523.79	586.24	435.14
PBILDT	75.37	71.99	67.88
PAT	20.56	12.66	14.09
Overall gearing (times)*	1.97	1.79	1.53
Interest coverage (times)	1.93	1.72	2.11

**Including mobilisation advances*
A: Audited; U/A: Unaudited.

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 Facilities

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 - LT-Cash Credit	-	-	-	210.00	CARE BB+; Stable
Non-fund-based - LT-Bank Guarantees	-	-	-	344.21	CARE BB+; Stable

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	210.00	CARE BB+; Stable	1)CARE BBB-; Stable (25-Dec-19)	1)CARE BBB; Stable (08-Oct-18)	1)CARE BBB; Stable (08-Sep-17)	1)CARE BBB (02-Aug-16)
2.	Non-fund-based - LT-Bank Guarantees	LT	344.21	CARE BB+; Stable	1)CARE BBB-; Stable (25-Dec-19)	1)CARE BBB; Stable (08-Oct-18)	1)CARE BBB; Stable (08-Sep-17)	1)CARE BBB (02-Aug-16)

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.*

Contact us

Media Contact
Mradul Mishra
Contact No. +91-22-6837-4424
Email ID – mradul.mishra@careratings.com

Analyst Contact
Name: Punit Singhania
Contact No. - 033-4018 1620
Email id - punit.singhania@careratings.com

Business Development Contact
Name: Lalit Sikaria
Contact No. - 033-4018 1607
Email id – lalit.sikaria@careratings.com

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.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**