Gayatri Projects Limited

June 21, 2018

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long-term Bank Facilities	2030.30 (reduced from 2138.03)	**CARE BB-; Stable (Double B Minus; Outlook: Stable)**	Revised from CARE D (Single D)
Long-term/Short-term Bank Facilities	4594.03	**CARE BB-; Stable/CARE A4 (Double B Minus; Outlook: Stable/ A Four)**	Revised from CARE D/ CARE D (Single D/ Single D)
Total	**6624.33 (Rupees Six thousand Six hundred Twenty Four crore and Thirty Three lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings of Gayatri Projects Limited (GPL) take into account improvement in the liquidity profile of the company with recovery of debtors and equity infusion through Qualified Institutional Placement (QIP) leading to regularization of debt servicing. The ratings also factor in improvement in experienced promoter group with established track record of the company, healthy and diversified order book albeit presence of slow moving orders, stable industry outlook and improved financial performance during FY18 (unaudited) (FY refers to the period April 01 to March 31) although there has been marginal weakening of PBILDT margin in FY18,. The ratings, however, continue to remain constrained by the stretched operating cycle, leveraged capital structure high group exposure with investments stuck in projects having high gestation period and working capital intensive nature of business. The ability of the company to further improve its liquidity position and manage the working capital requirements efficiently are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Improvement in liquidity profile: The company had faced liquidity stretch in FY18 due to higher repayment obligation during the year and stretched receivables witnessed during the year. However, the company raised Rs.200 crore through Qualified Institutional Placement (QIP) in the month of March 2018 which along with recovery of pending debtors has resulted in improvement in the liquidity profile and subsequent regularization of debt servicing.

Improvement in financial performance in FY18: The gross billing witnessed significant growth of about 35% in FY18 on account of faster execution of projects in hand. The company also witnessed improvement in PBILDT level by 27.22% in FY18. Further, on account of lower tax outgo due to write back of excess tax provided in earlier years, PAT level increased by about 2.7x (from Rs.70.43 crore in FY17 to Rs.188.09 crore in FY18) which also resulted in increase in PAT margin by 315 bps to 6.37%.

Experienced promoter group: GPL is a prominent infrastructure construction company with over four decades of experience in executing various infrastructure projects, especially road and irrigation segment. GPL, an ISO 9001 – 2000 company, is engaged in execution of major Civil Works including Concrete/Masonry Dams, Earth Filling Dams, National Highways, Bridges, Canals, Aqueducts, Ports, etc. It specializes in engineering, procurement and construction (EPC) of road, irrigation and industrial projects across India.

Healthy and diversified order book position: GPL has healthy and diversified order book of Rs.12,445.74 crore (excluding the slow moving orders) as on April 01, 2018 as against Rs.11,868.92 crore as on June 30, 2017 which translates to 4.21x of gross billing of FY18 providing medium to long term revenue visibility. The current work orders of the company are spread across 16 states with majority of orders pertaining to road and irrigation segment. GPL has orders amounting to Rs.804.36 crore have not moved since the last order book position as on June 20, 2017.

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

Stable industry outlook: The focus of the government on infrastructure development is expected to translate into huge business potential for the construction industry in the long-run. In the short to medium term (1-3 years), projects from transportation and urban development sector are expected to dominate the overall business for construction companies. The implementation of Goods and Service Tax might result in short run operational issues and pressure on working capital until the process is streamlined. Going forward, companies with better financial flexibility would be able to grow at a faster rate by leveraging upon potential opportunities.

Key Rating Weaknesses

Decline in PBILDT margin: PBILDT margin of GPL declined by 111 bps during FY18 (from 19.02% in FY17 to 17.91% in FY18)due to increase in sub-contracting expenses as a percentage of cost of sales to 19.65% in FY18 (as against 18.50% in FY17) coupled with increase in cost of raw material (majorly steel, cement and metal).

Leveraged capital structure albeit improvement: Capital structure marked by overall gearing continues to remain leveraged though improved as on March 31, 2018 to 2.60x as on March 31, 2018 as compared to 3.93x as on March 31, 2017. Total debt/GCA also remained high though improved from 25.51x in FY17 to 12.95x in FY18 at the back of significant increase in Gross Cash Accruals (GCA).

Elongated operating cycle: The company operates in working capital intensive industry with elongated collection period. Although the collection period of the company decreased to 141 days in FY18 as compared to 150 days in FY17; it continues to remain on the higher side. However, as on June 12, 2018, the company recovered around Rs.594 crore (about 53%) of total outstanding debtors of Rs.1131.71 crore as on March 31, 2018. The operating cycle also remained extended at about 81 days resulting in high reliance on bank borrowings. The average working capital utilization was almost full for 12 months ended May 2018.

High exposure to BOT projects having high gestation period: GPL has high group exposure in the form of investments/advances to group entities. Exposure in the form of investments remained high though decreased to Rs.1016.89 crore as on March 31, 2018. (as against Rs.1056.12 crore as on March 31, 2017). Majority of the group exposure is towards power projects and BOT projects which have a high gestation period and hence resulting in temporary blockage of funds.

Analytical approach: Standalone

Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Financial Ratios - Non-Financial Sector

About the Company
Gayatri Projects Limited (GPL) has been promoted by Dr T. Subbarami Reddy, the promoter of Hyderabad based Gayatri group of companies. GPL is a prominent infrastructure construction company with over four decades of experience in executing various infrastructure projects, especially in road and irrigation segment. GPL, an ISO 9001 – 2000 company, is engaged in execution of major Civil Works including Concrete/Masonry Dams, Earth Filling Dams, National Highways, Bridges, Canals, Aqueducts, Ports, etc. It specialises in engineering, procurement and construction (EPC) of road, irrigation and industrial projects across India.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (UA)
Total operating income	2185.74	2952.88
PBILDT	415.68	528.81
PAT	70.43	188.09
Overall gearing (times)	3.93	2.60
Interest coverage (times)	1.52	1.78

A: Audited

Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable

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

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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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Instruments/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-Term Loan	-	-	June 2023	359.72	CARE BB-; Stable
Fund-based - LT-Term Loan	-	-	June 2023	392.97	CARE BB-; Stable
Fund-based - LT-Cash Credit	-	-	-	900.00	CARE BB-; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	4594.03	CARE BB-; Stable / CARE A4
Fund-based - LT-External Commercial Borrowings	-	-	June 2023	130.05	CARE BB-; Stable
Fund-based - LT-Funded Interest term Loan	-	-	June 2023	103.35	CARE BB-; Stable
Fund-based - LT-Working capital Term Loan	-	-	June 2023	144.21	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	359.72	CARE BB-; Stable	-	1)CARE D (12-Mar-18) 2)CARE BB-; Negative (31-Oct-17) 3)CARE BBB-; Stable (11-Apr-17)	1)CARE BB- (10-Oct-16) 2)CARE BB- (11-May-16)	1)CARE B (27-Nov-15) 2)CARE D (05-Nov-15) 3)CARE B+ (05-May-15)
2.	Fund-based - LT-Term Loan	LT	392.97	CARE BB-; Stable	-	1)CARE D (12-Mar-18) 2)CARE BB-; Negative (31-Oct-17) 3)CARE BBB-; Stable (11-Apr-17)	1)CARE BB- (10-Oct-16) 2)CARE BB- (11-May-16)	1)CARE B (27-Nov-15) 2)CARE D (05-Nov-15) 3)CARE B+ (05-May-15)
3.	Fund-based - LT-Cash Credit	LT	900.00	CARE BB-; Stable	-	1)CARE D (12-Mar-18) 2)CARE BB-; Negative (31-Oct-17) 3)CARE BBB-; Stable (11-Apr-17)	1)CARE BB- (10-Oct-16) 2)CARE BB- (11-May-16)	1)CARE B (27-Nov-15) 2)CARE D (05-Nov-15) 3)CARE B+ (05-May-15)
4.	Non-fund-based - LT/ ST-BG/LC	LT/ST	4594.03	CARE BB-; Stable / CARE A4	-	1)CARE D / CARE D (12-Mar-18) 2)CARE BB-; Negative / CARE A4 (31-Oct-17) 3)CARE BBB-; Stable / CARE A3 (11-Apr-17)	1)CARE BB- / CARE A4 (10-Oct-16) 2)CARE BB- / CARE A4 (11-May-16)	1)CARE B / CARE A4 (27-Nov-15) 2)CARE D / CARE D (05-Nov-15) 3)CARE B+ / CARE A4 (05-May-15)
5.	Fund-based - LT-External Commercial Borrowings	LT	130.05	CARE BB-; Stable	-	1)CARE D (12-Mar-18) 2)CARE BB-; Negative (31-Oct-17) 3)CARE BBB-; Stable (11-Apr-17)	1)CARE BB- (10-Oct-16) 2)CARE BB- (11-May-16)	1)CARE B (27-Nov-15) 2)CARE D (05-Nov-15) 3)CARE B+ (05-May-15)
6.	Fund-based - ST-Bills discounting/ Bills purchasing	ST	-	-	-	-	-	1)Withdrawn (05-May-15)
7.	Fund-based - LT-Funded Interest term Loan	LT	103.35	CARE BB-; Stable	-	1)CARE D (12-Mar-18) 2)CARE BB-; Negative (31-Oct-17) 3)CARE BBB-	1)CARE BB- (10-Oct-16) 2)CARE BB- (11-May-16)	1)CARE B (27-Nov-15) 2)CARE D (05-Nov-15) 3)CARE B+ (05-May-15)

						; Stable (11-Apr-17)		
8.	Fund-based - LT-Working capital Term Loan	LT	144.21	CARE BB-; Stable	-	1)CARE D (12-Mar-18) 2)CARE BB-; Negative (31-Oct-17) 3)CARE BBB-; Stable (11-Apr-17)	1)CARE BB- (10-Oct-16) 2)CARE BB- (11-May-16)	1)CARE B (27-Nov-15) 2)CARE D (05-Nov-15) 3)CARE B+ (05-May-15)

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