

P. D. Agrawal Infrastructure Ltd

September 28, 2018

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long-term Bank Facilities	25.00	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Reaffirmed
Long-term/Short-term Bank Facilities	90.00	CARE BBB+; Stable / CARE A2 (Triple B Plus; Outlook: Stable/ A Two)	Reaffirmed
Total facilities	115.00 (Rupees One Hundred Fifteen crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of P.D. Agrawal Infrastructure Limited (PDAIL) continue to remain underpinned by the vast experience of the promoters and its established track record of more than four decades in the road construction business. Furthermore, the ratings derive strength from steady growth in the income from its two operational debt free toll projects in Punjab, healthy profitability, comfortable capital structure, healthy debt coverage indicators and liquidity position. The ratings also derives comfort from improvement in its order book position, albeit on a moderate base, reputed clientele translating into low counterparty risk with presence of price escalation clause in most of its contracts and increased thrust of government on infrastructure development.

The ratings, however, continue to be constrained by PDAIL's relatively moderate scale of operations which declined further during FY18 (refers to the period April 01 to March 31), geographical concentration of its order book working capital-intensive operations, susceptibility of its profitability to raw material price volatility along with its presence in the intensely competitive and fragmented construction industry.

PDAIL's ability to scale up its operations through timely execution of the existing orders and grow its order book through greater geographical and segmental diversification while maintaining its profitability margin and capital structure shall be the key rating sensitivities.

Detailed description of the key rating drivers
Key Rating Strengths

Experienced promoters along with proven construction capabilities: PDAIL is promoted by Mr P.D. Agrawal, who possesses over three decades of experience in execution of various projects in the construction sector. Mr Mahendra Agrawal, son of Mr P.D. Agrawal, assists him in the day-to-day business operation and looks after overall administration of the company. The Board of directors is supported by team of experienced professionals in the various fields for day-to-day business operations of the company.

PDAIL has an operational track record of more than four decades and is registered government contractor with Public Works Department (PWD), Government of MP for execution of civil projects. The company has demonstrated satisfactory track record of timely execution of contracts, which has helped the company to secure repeat orders from the clients.

Improvement in profitability, albeit decline in TOI: During FY18, PDAIL reported TOI of Rs.195.07 crore, which declined by 23% as against Rs.254.54 crore during FY17 on account of lower order book and consequently execution of fewer EPC projects during the year. However, toll collection income from two operational toll road projects continued to increase and during FY18, PDAIL reported a total toll collection of Rs.22.23 crore during FY18 as against Rs.21.24 crore in FY17.

PBILD and PAT margin continued to remain healthy and improved further by 319 bps (to 22.88%) and 139 bps (to 8.73%) respectively during FY18. Improvement in margins was primarily on account of execution of higher margin EPC contracts, increase in machinery rental income and higher toll collection.

Comfortable capital structure with healthy debt coverage indicators: PDAIL has a conservative external debt policy marked by low reliance on debt and a modest working capital limits. Overall gearing of the company improved to 0.36x as on March 31, 2018 as compared to 0.44x on March 31, 2017. Debt coverage indicators too remained healthy and improved further during FY18 marked by interest coverage at 8.84x as against 6.95x during FY17. Total debt to GCA also improved y-o-y 1.41 years as on March 31, 2018 (1.48 years as on March 31, 2017).

Increasing investment in construction equipment and machinery to meet its growing project execution requirements:

During last four years ending FY18, PDAIL invested Rs.81 crore in equipment and machinery required for execution of

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

projects. Gross block of the company increased to Rs.88 crore as on March 31, 2016, from Rs.105 crore as on March 31, 2018, and the company now owns a major portion of the machinery and equipment it requires for project execution. Part of the machinery has been rented to an established infrastructure player, from which PDAIL earned a rental income of Rs.4.02 crore during FY18.

Thrust of the Government on infrastructure development: Construction is integral to support India's growing need for infrastructure and industrial development. The increasing thrust of the Union Government towards infrastructure development including house for all, development of smart cities, thrust on better healthcare, education, etc., is likely to be beneficial for the construction sector in terms of providing increased business opportunities.

Key Rating Weaknesses

Moderate order book position: Order book of PDAIL as on August 31, 2018 grew by 13% to Rs.219 crore (Rs.194 crore as on September 15, 2017). Order book to total operating income [TOI (excluding toll revenue)] ratio during FY18 was around 1.28 times thereby providing moderate revenue visibility in the medium term. Approximately 87% of PDAIL's order backlog is from government entities and balance is from established infrastructure players, translating into low counter-party credit risk for the company.

Geographical concentration albeit slightly moderated in present order book: Although in the past, PDAIL has executed multiple infrastructure projects in Punjab and Rajasthan, its present order book is majorly (78%) concentrated in Madhya Pradesh (Indore region) and balance 22% is in Punjab, indicating high geographical concentration risk. However, PDAIL has an established in-house managerial resources and local knowledge generally required for the execution of projects owing to its base in the state.

Susceptibility of profitability to volatility associated with raw material prices: Considering execution of a contract is spread over 18-24 months, profitability of PDAIL remains susceptible to volatile raw material prices. However, the built-in price escalation clause in most of the orders on hand, mitigates the risk to an extent.

Exposure to real estate sector by way of investment in group concerns: PDAIL's has an investment of Rs.13.59 crore in two real estate ventures of the group, i.e., Suncity Dhoot Developers Pvt. Ltd (Suncity) and Vikram Constructions, which are engaged in land development projects in Indore city. The company has recovered a part of the investment in FY18 and the pace of recovery of balance recovery is expected to pick up in FY19.

Presence in a highly fragmented and competitive construction industry: PDAIL is a mid-sized player operating in an intensely competitive and fragmented construction industry with presence of many small and medium players. Furthermore, since MP offers a relatively conducive and stable environment for construction companies, it has led to high level of competition due to large number of players willing to take up projects located in this region. The increase in the competition and entry of new players exert pressure on the margins for new projects. However, PDAIL's long experience and it being a PWD registered civil contractor gives the company a competing edge and easy access to government orders where credit risk remains low.

Analytical approach: Standalone

Applicable Criteria

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

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

[Criteria for Short Term Instruments](#)

[Rating Methodology - Toll Road Projects](#)

About the Company

Incorporated in 2001, Indore-based PDAIL was promoted by Mr P D Agrawal to take over the existing business of partnership firm M/s P.D. Agrawal on going concern basis. The company is engaged in construction activities, mainly in the roads and bridges segment and has status of A-5 (eligible to bid for any amount) class contractor with different departments of Madhya Pradesh (M.P.) state government.

PDAIL has two operational toll road projects under Build-Operate-Transfer (BOT) basis in the state of Punjab.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	254.39	195.07
PBILDT	49.96	44.63
PAT	18.69	17.03
Overall gearing (times)	0.45	0.36
PBILDT Interest coverage (times)	6.96	8.84

A: Audited; UA: 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

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-Cash Credit	NA	NA	NA	10.00	CARE BBB+; Stable
Fund-based - LT-Cash Credit	NA	NA	NA	15.00	CARE BBB+; Stable
Non-fund-based - LT/ ST-Bank Guarantees	NA	NA	NA	90.00	CARE BBB+; Stable / CARE A2

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.	Term Loan-Long Term	LT	-	-	-	1)Withdrawn (09-Oct-17)	1)CARE BBB+; Stable (22-Dec-16)	1)CARE BBB+ (05-Oct-15) 2)CARE BBB+ (09-Jul-15)
2.	Fund-based - LT-Cash Credit	LT	10.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (09-Oct-17)	1)CARE BBB+; Stable (22-Dec-16)	1)CARE BBB+ (05-Oct-15) 2)CARE BBB+ (09-Jul-15)
3.	Fund-based - LT-Cash Credit	LT	15.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (09-Oct-17)	1)CARE BBB+; Stable (22-Dec-16)	1)CARE BBB+ (05-Oct-15) 2)CARE BBB+ (09-Jul-15)
4.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	90.00	CARE BBB+; Stable / CARE A2	-	1)CARE BBB+; Stable / CARE A2 (09-Oct-17)	1)CARE BBB+; Stable / CARE A2 (22-Dec-16)	1)CARE BBB+ / CARE A2 (05-Oct-15) 2)CARE BBB+ / CARE A2 (09-Jul-15)

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