

P. D. Agrawal Infrastructure Ltd

October 9, 2017

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*Details of instruments/facilities in Annexure-1; *Long-term rating assigned to the term loan facility has been withdrawn, as the same has been repaid;*

Detailed Rationale & Key Rating Drivers

The ratings assigned to P.D. Agrawal Infrastructure Limited (PDAIL) continue to derive strength from the vast experience of the promoters along with PDAIL's established track record in the road construction business. The ratings also favourably factor in substantial growth in its income from Engineering Procurement and Construction (EPC) segment with stable profitability and improvement in leverage and debt coverage indicators during FY17 on the back of reduction in PDAIL's reliance on working capital borrowings (including mobilization advances) and pre-payment of project term debt. The ratings also take cognizance of continuous growth in toll income from PDAIL's two operational Built Own Transfer (BOT) projects despite suspension of toll collection due to demonetization and healthy debt-free tail period till FY23 (refers to the period April 01 to March 31) along with improvement in liquidity marked by improvement in working capital cycle.

The ratings, however, continue to be constrained by PDAIL's relatively moderate albeit growing scale of operations, its moderate order book position along with it being geographically concentrated, working capital-intensive operations and its presence in a fragmented and competitive construction industry.

PDAIL's ability to further 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 margins and capital structure shall be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Significant growth in TOI along with healthy profitability: The TOI of PDAIL grew more than double from Rs.115 crore in FY16 to Rs.254 crore in FY17, on back of timely execution and completion of orders. Furthermore, despite suspension of toll for almost a month, average daily toll receipts from its two BOT projects grew by 13.60% during FY17.

Segment-wise profitability remained stable during FY17, despite volatile raw material prices (primarily cement) and suspension of toll collection for a period of approximately 22 days on account of demonetization. The reduction in combined PBILDT margin is primarily on account of change in composition of TOI. The impact on PAT margin was lower on account of lower than proportionate increase in interest and depreciation cost. During FY17, PDAIL reported gross cash accruals of Rs.35.41 crore as against Rs.22.91 crore in FY16. As per the provisional results for Q1FY18, PDAIL reported a turnover close to Rs.60 crore along with an average daily toll collection of Rs.9.44 lakh per day, showing a healthy growth.

Low leverage with conservative policy on the use of debt: Overall gearing further improved to 0.44 times as on March 31, 2017 (0.78 times on March 31, 2016) on account of on account of prepayment of term debt, lower reliance on debt for working capital requirements and healthy accruals to reserves. PDAIL has a conservative external debt policy marked by its low total debt and a modest working capital limits. Debt coverage indicators also showed an improvement with total debt to GCA and PBILDT / Interest coverage mainly on account of improvement in PDAIL's PBILDT during FY17.

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

During last three years ending FY17, PDAIL invested Rs.78 crore in equipment and machinery required for execution of projects. Gross block of the company increased to Rs.88 crore as on March 31, 2016, from Rs.104 crore as on March 31, 2017, and the company now owns a major portion of the machinery and equipment it requires for project execution.

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

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

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 albeit successful operational track record and presence of price escalation clause in majority of its contracts: As on September 15, 2017, PDAIL had an order-book of Rs.194 crore. During FY17, PDAIL had sufficient order book and did not bid for new projects during this tenure due to limitation on its execution capacity. Majority of PDAIL's present order book is supported by in-built price escalation clause, which mitigates a large part of the risk arising out of adverse movement in raw material prices. The company has now started bidding for new road projects.

Furthermore, the order backlog of Rs.111 crore of PDAIL is from government entities and balance is from established infrastructure players, translating into limited counter-party credit risk for the company.

Geographical and client concentration albeit slightly moderated in present order book: Although in the past, PDAIPL has executed various infrastructure projects in Punjab and Rajasthan, its present order book is entirely concentrated in Madhya Pradesh (Indore region), indicating high geographical concentration risk. The risk arises from the fact that any adverse changes in political environment or policy matters would affect all the projects at large. However, PDAIPL has an established in-house managerial resources and local knowledge generally required for the execution of projects owing to its base in the state.

Exposure to real estate sector by way of investment in group concerns: PDAIL's investment in two real estate ventures of the group, i.e., Suncity Dhoot Developers Pvt. Ltd (Suncity) and Vikram Constructions increased by about Rs.1.66 crore during FY17 and now stands at Rs.13.78 crore. These entities are engaged in land development projects in Indore city. The company recovered a part of the investment in Q1FY18 and the pace of 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 the 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 - Infrastructure Sector Ratings](#)

[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)	FY16 (A)	FY17 (A)
Total operating income	115.38	254.39
PBILDT	33.72	49.96
PAT	9.80	18.69
Overall gearing (times)	0.78	0.44
PBILDT Interest coverage (times)	5.55	6.96

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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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.

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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
Term Loan-Long Term	-	-	-	0.00	Withdrawn
Fund-based - LT-Cash Credit	-	-	-	10.00	CARE BBB+; Stable
Fund-based - LT-Cash Credit	-	-	-	15.00	CARE BBB+; Stable
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Term Loan-Long Term	LT	-	-	-	1)CARE BBB+; Stable (22-Dec-16)	1)CARE BBB+ (05-Oct-15) 2)CARE BBB+ (09-Jul-15)	1)CARE BBB (12-Jun-14)
2.	Fund-based - LT-Cash Credit	LT	10.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (22-Dec-16)	1)CARE BBB+ (05-Oct-15) 2)CARE BBB+ (09-Jul-15)	1)CARE BBB (12-Jun-14)
3.	Fund-based - LT-Cash Credit	LT	15.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (22-Dec-16)	1)CARE BBB+ (05-Oct-15) 2)CARE BBB+ (09-Jul-15)	1)CARE A3+ (12-Jun-14)
4.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	90.00	CARE BBB+; Stable / CARE A2	-	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)	1)CARE BBB / CARE A3+ (12-Jun-14)

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