P.D. Agrawal Infrastructure Limited

September 23, 2019

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	20.00 (reduced from 25.00)	**CARE BBB+; Stable (Triple B Plus; Outlook: Stable)**	**Reaffirmed**
Long-term/Short-term Bank Facilities*	155.00 (enhanced from 90.00)	**CARE BBB+; Stable / CARE A2 (Triple B Plus; Outlook: Stable/A Two)**	**Reaffirmed**
Total facilities	**175.00 (Rupees One Hundred Seventy Five crore only)**		

Details of instruments/facilities in Annexure-1
**Reclassified bank facilities of Rs.5 crore from Long-term to Long-term/ Short-term*

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of P.D. Agrawal Infrastructure Limited (PDAIL) continue to derive strength from experienced and resourceful promoters, its established track record of over four decades in the road construction business along with its long term association with various government authorities. The ratings continue to take into account, its healthy profitability, comfortable capital structure, robust debt coverage indicators and comfortable liquidity position which is supported by its two operational debt free toll projects in Punjab. The ratings also derives comfort from improvement in its order book position, sizeable own equipment fleet, reputed clientele with low counterparty risk, presence of price escalation clause in most of its contracts and increased thrust of government on infrastructure development.

The ratings, however, continue to remain constrained by PDAIL's relatively moderate scale of operations which declined further during FY19 (refers to the period April 01 to March 31) along with working capital-intensive nature of operations. The ratings are also constrained on account of geographical concentration of its order book, susceptibility of its profitability to raw material price volatility, its exposure to real estate sector by way of investment in group concerns, along with its presence in the intensely competitive and fragmented construction industry.

PDAIL's ability to scale up its operations through timely execution of orders on hand while maintaining its healthy profitability, procure new orders with greater geographical & segmental diversification, maintain its comfortable capital structure and efficient management of its working capital requirements shall be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters along with established track record of operations: PDAIL is promoted by Mr P.D. Agrawal, who possesses over four decades of experience in execution of various projects in the construction sector. He is assisted by his son, Mr Mahendra Agrawal, who looks after day-to-day operations and overall administration of the company. The promoters are ably supported by team of experienced professionals for project planning, execution of projects and other business operations of the company.

PDAIL has an established track record of more than four decades in execution of infrastructure projects (mainly roads and highways), sound projection execution capability coupled with its certification from Public Works Department (PWD), Government of MP for execution of civil projects, ensure it meets financial and technical criteria for small and mid-size road projects.

Healthy order book position with low counterparty credit risk: As on July 31, 2019, order book of PDAIL grew by over 50% to Rs.329 crore (Rs.219 crore as on August 31, 2018). PDAIL bagged three new orders amounting to Rs.187 crore since the last review. The ratio of order book to total operating income (TOI) for FY19 improved substantially to around 2.38 times, indicating healthy revenue visibility in the medium term. Approximately 90% 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.

Sizeable own fleet of equipment: PDAIL has made significant investment in building its own fleet of equipment and machinery required for project execution. During last four years ending March 2019, PDAIL's gross block of tangible assets increased to Rs.106 crore as compared to Rs.46 crore as on March 31, 2015. PDAIL now owns a major portion of equipment and machinery required for project execution, which helps the company in timely execution of the projects on hand.

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

Healthy profitability, comfortable capital structure and debt coverage indicators: PBILDT margin continued to remain healthy and improved further by 634 bps y-o-y to 29.22% during FY19 on account of improvement in profitability from its toll road projects and higher machinery rental income. Consequently, PAT margin also improved by 175 bps y-o-y and remained healthy at 10.48%. PDAIL reported a healthy Gross Cash Accruals (GCA) of Rs.30.37 crore, which remained largely in lines with FY18 (Rs.32.25 crore).
PDAIL's capital structure continued to remain comfortable marked by below unity overall gearing, which further improved to 0.22x as on March 31, 2019 from 0.36x as on March 31, 2018. The improvement was on account of scheduled repayment of its term debt and healthy accruals to reserves. PDAIL has a conservative external debt policy marked by low reliance on fund-based limits for working capital requirements. Debt coverage indicators also improved during FY19 and continued to remain robust marked by an interest coverage of 10.18x (FY18: 8.84x) and total debt to GCA of 0.99x (FY18: 1.41x).

Thrust of the Government on infrastructure development:
Thrust of the government for road construction through initiatives such as Pradhan Mantri Gram Sadak Yojna (PMGSY), broadening of state & national highways and providing connectivity to tribal areas has offered various opportunities for infrastructure companies. However, execution challenges like increasing cost, land acquisition, delay in receipt of regulatory clearances, high risk aversion of public sector banks to infrastructure projects and limited budgetary support beleaguer the industry.

Key Rating Weaknesses
Moderate Scale of operations: During FY19, PDAIL's TOI declined by 29% y-o-y to Rs.138.23 (FY18: 195.07 crore) on account of higher uncertified work, slower than envisaged project progress in two of its projects and lower order book position during previous year. Toll collection income from PDAIL's two operational toll projects remained stable at Rs.21.67 crore during FY19 (FY18: Rs.22.23 crore). PDAIL also rents out part of its machinery to established infrastructure players, from which it earned a rental income of Rs.11.51 crore during FY19 (Rs.4.02 crore in FY18).
During Q1FY20 (provisional) (refers to the period April 01 to June 30), execution of contracts on hand and certification of work in progress resulted in substantial growth in PDAIL's TOI to Rs.34.25 crore (Rs.19.53 crore during Q1FY19).

Geographically concentrated order book: Operations of PDAIL are geographically concentrated in the state of Madhya Pradesh (MP) with 87% of orders to be executed in MP and balance 13% to be executed in Punjab. Concentration of the order book in one state exposes PDAIL to any adverse changes in political environment or policy matters that would affect all the projects at large. However, PDAIL has an established track record in execution of projects in MP and possesses in-house managerial resources and local knowledge required for the execution of projects owing to its base in the state.

Susceptibility of profitability to fluctuations in input prices: Considering execution period of contracts awarded to PDAIL usually range from 18-24 months, its profitability remains susceptible to fluctuations in the input prices. However, around 88% of PDAIL's order book as on July 31, 2019 have a built-in price escalation clause for major components, which mitigates the risk to an extent.

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 and Vikram Constructions increased during the year to Rs.15.34 crore as at FY19 end (Rs.13.59 crore as on FY18 end). Although PDAIL expects recovery of a part of its investment in FY20, considering subdued demand, rising costs and other issues, recovery of investments may be impacted in the near term. Extent of further support by PDAIL and recovery of advances remains a rating monitorable.

Presence in a highly fragmented and competitive construction industry: PDAIL is a mid-sized player operating in an intensely competitive construction industry with presence of large number of contractors. Furthermore, with low counterparty credit risk and a relatively stable payment track record of projects funded by government bodies, these projects are lucrative for all the contractors and hence are highly competitive. Nevertheless aggressive bidding by the company or delay in project progress due to unavailability of regulatory clearances may affect the credit profile of the contractor and exert pressure on the margins on the new projects. However, PDAIL's long experience, track record of executing projects in Madhya Pradesh and in-house availability of resources gives it an edge to bid competitively and execute orders in a timely manner.

Liquidity:
Operations of PDAIL are inherently working capital intensive primarily due to the funding requirement for security deposits, retention amount & margin money for its non-fund-based facilities. Also, being an EPC contractor, PDAIL receives payments based on milestone basis resulting in higher investment in working capital.
On account of higher receivables due to skewness in execution of projects during Q4FY19 (leading to higher receivables) and higher inventory levels (work in progress), operating cycle of PDAIL elongated from 100 days in FY18 to 189 days in

FY19. Nevertheless, PDAIL reliance on working capital limits remained low and a large part of the working capital requirement is met through its own sources. Furthermore, PDAIL's two operational debt free toll projects provides significant cushion to its liquidity profile. Consequently, the average utilisation of its fund-based limits remained moderate at 48% during the trailing twelve months ended August 2019. During FY19, PDAIL's cash flow from operations increased to Rs.30.52 crore (FY18: Rs.15.07 crore); against this, fixed debt repayment obligation of PDAIL remains low at Rs.11.51 crore during FY20.

Analytical approach: Standalone

Applicable Criteria
Rating Outlook and Credit Watch
Definition of default
Short Term Instruments
Rating Methodology - Infrastructure Sector Ratings (ISR)
Rating Methodology - Toll Road Projects
Financial ratios non-financial sector

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 a going concern basis. The company is engaged in construction activities (mainly roads and highways) and has been associated with various government authorities like Madhya Pradesh Road Development Corporation (MPRDC), Madhya Pradesh Water Resources Department (MPWRD), Narmada Valley Development Authority (NVDA), Indore Development Authority (IDA) and Indore Municipal Corporation (IMC) for execution of civil projects.
PDAIL has two operational toll road projects under Build-Operate-Transfer (BOT) basis in the state of Punjab.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	195.07	138.23
PBILDT	44.63	40.39
PAT	17.03	14.49
Overall gearing (times)	0.36	0.22
PBILDT Interest coverage (times)	8.84	10.18

A: Audited;

Status of non-cooperation with previous CRA: CRISIL B+; Stable/ CRISIL A4; ISSUER NOT COOPERATING, based on best available information. CRISIL in its press release dated June 13, 2019 had revised the ratings from CRISIL BB+; Stable/A4+; Issuer not cooperating for lack of requisite information.

Any other information: Not applicable

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

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	-	-	-	5.00	CARE BBB+; Stable
Fund-based - LT-Cash Credit	-	-	-	15.00	CARE BBB+; Stable
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	155.00	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 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.	Term Loan-Long Term	LT	-	-	-	-	1)Withdrawn (09-Oct-17)	1)CARE BBB+; Stable (22-Dec-16)
2.	Fund-based - LT-Cash Credit	LT	5.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (28-Sep-18)	1)CARE BBB+; Stable (09-Oct-17)	1)CARE BBB+; Stable (22-Dec-16)
3.	Fund-based - LT-Cash Credit	LT	15.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (28-Sep-18)	1)CARE BBB+; Stable (09-Oct-17)	1)CARE BBB+; Stable (22-Dec-16)
4.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	155.00	CARE BBB+; Stable / CARE A2	-	1)CARE BBB+; Stable / CARE A2 (28-Sep-18)	1)CARE BBB+; Stable / CARE A2 (09-Oct-17)	1)CARE BBB+; Stable / CARE A2 (22-Dec-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.*

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