P.D. Agrawal Infrastructure Limited

October 16, 2020

Rating

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term / Short Term Bank Facilities*	180.00 (Enhanced from 175.00)	CARE BBB+; Stable / CARE A2 (Triple B Plus; Outlook: Stable / A Two)	Reaffirmed
Total Facilities	180.00 (Rs. One Hundred Eighty Crore Only)		

**Reclassified bank facilities of Rs.20 crore from Long Term to Long Term / Short Term*
Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of P.D. Agrawal Infrastructure Limited (PDAIL) continues to remain underpinned from experienced and resourceful promoters, its established track record of over four decades in road construction business, healthy order book position with low counterparty risk & presence of price escalation clause in most of the contracts, sizeable investment in fixed assets to support execution of contracts and increased thrust of government on infrastructure development. The ratings also continue to take into account PDAIL's healthy profitability, comfortable capital structure & debt coverage indicators along with adequate liquidity, which is supported by its two operational debt-free toll projects in Punjab.

The above strengths are, however, partially offset by PDAIL's moderate scale of operations, geographical concentration of its order book, susceptibility of its profitability to raw material price volatility, working capital-intensive nature of operations, its exposure to real estate sector by way of investment in group concerns, along with its presence in an intensely competitive and fragmented construction industry.

CARE also takes cognizance that PDAIL has not availed moratorium on debt repayment for its bank facilities, available under RBI's COVID-19 relief program during March to August 2020.

Key Rating Sensitivities:

Positive factors:

- Growth in its total operating income (TOI) to above Rs.500 crore while maintaining its profitability.
- Improvement in its working capital intensity by way of reduction in its gross current asset days to below 150 days on a sustained basis.

Negative factors:

- Delay in execution of orders on hand reducing its TOI to below Rs.150 crore in FY21 (refers to the period April 01 to March 31).
- Reduction in its PBILDT margin to below 15% on a sustained basis.
- Deterioration in its capital structure leading to an overall gearing beyond 0.75x.
- Increase in its working capital intensity with gross current asset days increasing to beyond 300 days.

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).

Healthy order book position with low counter party risk: As on June 30, 2020, the order book of PDAIL remained healthy at Rs.387.50 crore (Rs.329 crore as on July 31, 2019). The ratio of order book to TOI for FY20 remained comfortable at 2.35 times, thereby indicating a healthy revenue visibility in the medium term. Execution of majority of the projects is as per schedule, except for the Amritsar airport project which was delayed due to delay in handing of project site by the authority. Since the last review, PDAIL bagged two new road projects aggregating to Rs.244 crore. PDAIL's entire order backlog is from government entities translating into low counter-party credit risk for the company.

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

Sizeable own fleet of equipment: Over the years, PDAIL has made significant investment in building its own fleet of equipment and machinery required for project execution. PDAIL's gross block of tangible assets increased to Rs.117.92 crore as on March 31, 2020 as compared to Rs.46.24 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.

Healthy profitability, comfortable capital structure and debt coverage indicators: Both segments, EPC and toll reported healthy profitability during FY20. PBILDT margin, albeit healthy at 25.19%, declined by 403 bps during FY20, primarily on account of change in composition of TOI and reduction in high margin machine rental income. PAT margin continued to remain healthy at 9.87% during FY20 (PY: 10.48%). PDAIL reported a healthy gross cash accrual (GCA) of Rs.32.32 crore during FY20, as against Rs.30.37 crore in FY19.
PDAIL has a healthy net worth base with a conservative policy on availing debt for working capital requirements as well as capex requirements. Consequently, its capital structure continued to remain comfortable marked by an overall gearing of 0.22x as at FY20 end (0.22x as at FY19 end). Debt coverage indicators continued to remain comfortable marked by an interest coverage of 10.93x (PY: 10.18x) and total debt to GCA of 1.09x (PY: 1.06x).

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, the sector has faced challenges owing to suspension of construction activities due to spread of COVID-19 pandemic along with reverse migration of labour. However, the situation has gradually improved and the execution pace has now picked up. Also, various measures have been taken by the government under the Atma Nirbhar scheme, which shall ease up the working capital requirement of the players. However, execution challenges like increasing cost of 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 FY20, PDAIL's TOI grew by over 20% y-o-y to Rs.165.65 crore on account of growth in income from EPC segment. Toll collection income and machinery rental income remained largely stable during FY20 at Rs.22.14 crore (PY: Rs.21.67 crore) and Rs.9.53 crore (PY: Rs.11.51 crore) respectively.
Due to lockdown restriction following outbreak of COVID-19 pandemic, PDAIL's TOI declined to Rs.21.68 crore during Q1FY21 as against Rs.34.25 crore in Q1FY20. PDAIL's average daily toll collection (ADTC) during 5MFY21 (refers to the period April 1 to August 31) declined by around 22% as compared to 5MFY20. However, project execution pace and traffic on toll road projects has scaled up gradually from Q2FY21 (refers to the period July 1 to September 30) and during H1FY21 (refers to the period April 1 to September 30), PDAIL reported total income of Rs.70 crore, as against Rs.67 crore in H1FY20.
Geographically concentrated order book: Earlier, the operations of PDAIL were geographically concentrated primarily in the state of Madhya Pradesh. However, during the year, PDAIL received a road project in Maharashtra, which has geographically diversified PDAIL's order book to an extent. The present order book as on June 30, 2020 is spread across Madhya Pradesh (55% of the outstanding order book), Maharashtra (35%) and balance in Punjab (10%). Geographical concentration of the order book 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, almost entire (98%) of PDAIL's order book as on June 30, 2020 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 has an investment of Rs.17.92 crore as on March 31, 2020 (Rs.15.34 crore as on March 31, 2019) in two real estate ventures of the group, i.e., Suncity Dhoot Developers Pvt. Ltd and Vikram Constructions. Furthermore, PDAIL is also undertaking construction of a small commercial property in Indore with a total saleable area for around 16,000 sq. ft. on a joint-venture basis (with 55% PDAIL's share), wherein the JV partner shall provide the land parcel and PDAIL shall undertake the construction work. The total construction cost is envisaged at Rs.10 crore, to be funded entirely through internal accruals, of which Rs.3.79 crore has been incurred during FY20. However, the project risk remains low considering the small project size and healthy cash accruals from the toll projects.

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. 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: Adequate
PDAIL has an adequate liquidity characterized by sufficient cushion in cash accruals vis-à-vis repayment obligations along with unutilised bank lines. As against debt repayment obligation of Rs.1-4 crore during FY21-FY22, PDAIL is envisaged to generate cash accruals of Rs.27-35 crore during the period. The average month-end utilisation of its fund-based limits has remained low at just 19% for the trailing twelve months ended August 2020. As on September 29, 2020, PDAIL had a free cash and bank balance of Rs.4.93 crore besides lien-marked FDs of Rs.12.63 crore. Even though the operations of PDAIL are working capital intensive, its reliance on working capital limits remains low and majority of the working capital requirement is met through own funds.
The gross current asset days elongated to 270 days during FY20 (PY: 239 days) owing to sudden outbreak of COVID-19 in March 2020 resulting in higher WIP inventory (work not certified) along with delayed receipt of payment from its debtors. However, operating cycle during FY20 remained stable at 171 days (FY19: 191 days) owing to similar elongation in creditors. Cash flow from operations albeit declined, remained healthy at Rs.21.79 crore during FY20 (PY: Rs.29.23 crore). The current and quick ratio remained comfortable at 1.70x and 0.97x respectively as on March 31, 2020 (1.87x and 1.23x as on March 31, 2019). Furthermore, PDAIL's two operational debt free toll projects provides significant cushion to its liquidity profile.
PDAIL has not availed moratorium on its debt obligations, available under RBI's COVID-19 relief program, which further underscores its strong liquidity.

Analytical approach: Standalone

Applicable Criteria:
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
Rating Methodology – Construction Sector
Rating Methodology - Toll Road Projects
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Financial ratios - Non- Financial Sector
Liquidity Analysis of Non-Financial Sector Entities

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 (operational since 1978) 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)	FY19 (A)	FY20 (A)
Total operating income	138.23	165.56
PBILDT	40.39	41.71
PAT	14.49	16.34
Overall gearing (times)	0.22	0.22
PBILDT Interest coverage (times)	10.18	10.93

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 September 24, 2020 has continued PDAIL's rating at CRISIL B+; Stable/ CRISIL A4; ISSUER NOT COOPERATING for lack of requisite information.

Any other information: Not applicable

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

Complexity level of various instruments rated for this company: Annexure-3

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/ ST-Cash Credit	-	-	-	5.00	CARE BBB+; Stable / CARE A2
Fund-based - LT/ ST-Cash Credit	-	-	-	15.00	CARE BBB+; Stable / CARE A2
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	160.00	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Term Loan-Long Term	LT	-	-	-	-	-	1)Withdrawn (09-Oct-17)
2.	Fund-based - LT/ ST-Cash Credit	LT/ST	5.00	CARE BBB+; Stable / CARE A2	-	1)CARE BBB+; Stable (23-Sep-19)	1)CARE BBB+; Stable (28-Sep-18)	1)CARE BBB+; Stable (09-Oct-17)
3.	Fund-based - LT/ ST-Cash Credit	LT/ST	15.00	CARE BBB+; Stable / CARE A2	-	1)CARE BBB+; Stable (23-Sep-19)	1)CARE BBB+; Stable (28-Sep-18)	1)CARE BBB+; Stable (09-Oct-17)
4.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	160.00	CARE BBB+; Stable / CARE A2	-	1)CARE BBB+; Stable / CARE A2 (23-Sep-19)	1)CARE BBB+; Stable / CARE A2 (28-Sep-18)	1)CARE BBB+; Stable / CARE A2 (09-Oct-17)

Annexure-3: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT/ ST-Cash Credit	Simple
2.	Non-fund-based - LT/ ST-Bank Guarantees	Simple

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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