

SEPTEMBER 19, 2014

CARE REVISES THE RATING ASSIGNED TO BANK FACILITIES AND NCD OF PATEL ENGINEERING LIMITED

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Remarks
Long term Bank Facilities – Term Loan	810	CARE BB (Double B)	Revised from CARE BBB [Triple B]
Long term Bank Facilities – Fund Based	200	CARE BB (Double B)	Revised from CARE BBB [Triple B]
Short term Bank Facilities – Fund Based	195	CARE A4 (A Four)	Revised from CARE A3 [A Three]
Long/ Short term Bank Facilities – Fund Based	1,370	CARE BB/ CARE A4 (Double B/ A Four)	Revised from CARE BBB/ CARE A3 [Triple B/ A Three]
Long/ Short term Bank Facilities – Fund Based	3,295	CARE BB/ CARE A4 (Double B/ A Four)	Revised from CARE BBB/ CARE A3 [Triple B/ A Three]
Total Facilities	5,870		
Non-Convertible Debenture I	90	CARE BB (Double B)	Revised from CARE BBB [Triple B]
Non-Convertible Debenture II	270	CARE BB (Double B)	Revised from CARE BBB [Triple B]
Non-Convertible Debenture III	180	CARE BB (Double B)	Revised from CARE BBB [Triple B]

Rating Rationale

The revision in the ratings of Patel Engineering Ltd (PEL) takes into account the severe liquidity strain due to the elongated working capital cycle with high debtor and inventory levels, continued deterioration in capital structure, weakening of debt protection metrics of the company and prolonged delay in monetizing some of the noncore assets of the company.

The rating revision also factors in substantial off-balance-sheet exposure in the form of corporate guarantees and other financial support extended to its group companies and PEL's exposure to real estate-power projects through its subsidiaries.

However, the ratings continue to draw strength from established track record of over six decades of operations, with experience spanning the entire spectrum of the construction industry, qualified and experienced management team and sizeable order book of PEL.

The ability of PEL to manage its liquidity position by improving debtor realization and reduction in inventory levels, improvement in profitability margins along with monetization of non-core assets and utilization of the money to improve the capital structure of PEL are the key rating sensitivities.

Background

PEL is one of the leading construction companies in India with an established track record in both, domestic and international markets with experience in building bridges to dams to highways. The company since the past few years has forayed in the asset ownership model primarily in the power, roads and real estate space. The order backlog from

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

engineering & construction business as on March 31, 2014 stood at around Rs. 12,660 crore, translating to 5.38 times the gross billing for FY14.

PEL reported adjusted PAT of Rs.25 crore on total operating income of Rs.2,354 crore for FY14, against adjusted PAT of Rs. 49 crore on total operating income of Rs. 2,740 crore for the previous year. During Q1FY15, the company reported PAT of Rs.0.70 crore on total income of Rs.557 crore, against PAT of Rs.0.3 crore on total income of Rs.603 crore for the corresponding period of the previous year. On consolidated basis, PEL reported adjusted PAT of Rs.37 crore on total operating income of Rs.3236 crore for FY14, against adjusted PAT of Rs.74 crore on total operating income of Rs.3789 crore for the previous year.

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CIN - L67190MH1993PLC071691