PNC Infratech Limited

April 03, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long term Bank Facilities	1,700	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Reaffirmed
Short term Bank Facilities	5,000	CARE A1+ (A One Plus)	Reaffirmed
Total	6,700 (Rupees Six thousand and seven hundred crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings assigned to the bank facilities of PNC Infratech Ltd (PIL) continues to derive strength from the company's strong order book position, its improved financial performance during FY19 and 9MFY20, its stable profitability margins demonstrated over the years, its comfortable capital structure and debt coverage indicators. The ratings are also strengthened by PIL's comfortable liquidity, notwithstanding a substantial increase in scale of operations and committed equity investments in ongoing and upcoming hybrid annuity model (HAM) projects. The ratings further derive comfort from the proven experience of the promoters in the road construction industry and their track record of timely execution of projects. The ratings, however, continue to remain constrained by its geographical concentration, inherent execution risks therein, significant equity commitments for HAM projects, moderate level of financial support towards a few SPVs in which PIL has majority stakes or substantial minority stakes, inherent cyclical trends associated with the construction sector and moderately working capital-intensive nature of its operations.

Rating Sensitivities:

Positive Factors

- Continued growth in its scale of operations as envisaged while maintaining healthy operating profitability and managing working capital requirements efficiently
- Maintained order book position with revenue visibility of 3.0-3.5x with quality counterparties
- Enhanced geographical diversification

Negative Factors

- Delay in receipt of appointed dates or execution challenges for major projects resulting in decline in revenues.
- Deterioration in PBILDT margin below 12%
- Delays or execution issues in HAM projects requiring enhanced support beyond the envisaged equity commitments
- Deterioration in the capital structure or substantial decline in the available liquidity buffer (in the form of unencumbered cash and cash equivalents and undrawn working capital lines) in the company

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

Detailed description of the key rating drivers
Key Rating Strengths
Experienced promoters and long track record of operations:
The promoters of PIL have a time-tested experience in the construction and infrastructure sector and are supported by a team of qualified engineers with expertise in roads and highways construction. The company has executed 60 major infrastructure projects in 13 states across India. The company has a track record of timely execution of projects and has also received bonus for some of its projects for early completion. There has been a demonstrated consistency of the company's capability to bid for and win large sized projects from various Government departments or authorities.

Healthy growth in order book giving medium term revenue visibility
The company's order book has witnessed healthy growth and stood at Rs.9,758 crore as on January 31, 2020 as against Rs.7,965 crore as on 31st December, 2018, translating into orders equivalent to 3.12x of FY19 revenue. Apart from this, PIL have recently received letters of award (LOAs) for three HAM projects. The total bid project cost for these packages is Rs.5184 cr. The company has achieved financial closure for all the seven existing HAM projects and is awaiting the appointed date for one project namely Challakere-Hariyur. The strong order book position and track record of timely execution provides adequate revenue visibility for the medium term.

Improved financial performance during FY19 and 9MFY20
The total operating income of the company increased by around 67% y-o-y, from Rs.1,871 crore in FY18 to Rs 3,123 crore in FY19, primarily on account of its efficient execution of the order book as well as the new orders secured by the company. Nonetheless, its profitability margins moderated, while remaining at healthy levels with PBILDT and PAT margin of 15.40% and 10.40% respectively in FY19 (as against 17.81% and 13.42% in FY18). Gross cash accruals (GCA) were higher at Rs. 415 crore in FY19 as against Rs.322 crore in FY18.
During the 9MFY20, the company has reported TOI of Rs. 3,792.52 cr, PAT of Rs. 384.23 cr and GCA of Rs. 474.76 cr. PBILDT and PAT margins remained healthy at 17.94% (PY:16.42%) and 10.13% (PY:9.01%) respectively during 9MFY20. The interest coverage ratio also stood comfortable at 8.22x (PY:7.54x) for 9MFY20.

Comfortable financial risk profile and liquidity position
PIL's liquidity profile remains strong with negligible utilization of working capital limits, which stood at 1.28%, for the 12 month-period ending January 2020. Its capital structure and coverage indicators also remained at comfortable levels. The debt profile of the company primarily consists of equipment/ vehicle loans and mobilization advances. During FY19 as well as FY20, PIL took additional equipment loans to ramp up its equipment capacity commensurate with its increased order book position. The same resulted in moderation of its overall gearing to 0.37x (PY: 0.15x) as on 31st March 2019, while still remaining at comfortable levels. Despite the increased debt levels, the interest coverage ratio stood comfortable at 7.50x (PY: 10.85x) for FY19. The cash and bank balance stood at Rs.434.86 crore as on December 31, 2019 (Rs.258.01 crore as on March 31, 2019).
All BOT projects operational, further equity requirements are there for under construction HAM projects
The company currently has seven operational (BOT) road assets comprising both toll and annuity based projects. Additionally, during the period FY17-FY19, the company has won a total of seven projects under HAM. The equity requirement envisaged for the HAM projects were around Rs.832 crore over a span of 2-3 years, out of which PIL has already infused around Rs.427 crore as on December 31, 2019. Apart from these HAM projects, PIL has also been awarded three more HAM projects during Q4FY20. The equity requirement in these projects is envisaged to be around an additional Rs. 460 cr which is likely to be infused by PIL in phases subsequent to the receipt of Appointed Date (AD) in the next three FYs.
Considering the scale of operations of the company with GCA in excess of Rs.500 crore annually and the company's sound liquidity and healthy capital structure, it is expected that the company is placed comfortably to meet the equity requirements for the HAM projects from its internal accruals.

Key Rating Weaknesses

Moderate working capital intensive nature of operations

PIL's working capital cycle improved from 118 days in FY18 to 73 days in FY19, mainly on account of improvement in the collection period from 162 days in FY18 to 97 days in FY19 as well as the reduced receivables of Rs. 820 crore as on March 31, 2019 (against Rs.846 crore as on March 31, 2018) vis-a vis- total operating income of Rs. 3123 crore (PY: 1871 crore). Going forward, the company further needs to improve its holding levels, for which constant efforts are being done as evident from its improved position on year on year basis.

Besides, debtors averaging more than six months were low at around Rs.80 crore as on December 31, 2019 [of which about Rs.63 crore was outstanding towards one project, namely Ghaziabad-Aligarh Expressways Private Limited (GAEPL)].

Order book concentration risk

PIL's top six contracts constitute about 69% of the total order book as on December 31, 2019 (Rs.6,018 crore), signifying order book concentration risk. Besides, the current order book remains concentrated in the state of Uttar Pradesh (68% of the total order book as on December 31, 2019). Nonetheless, the geographical risk is offset to a large extent by the operational synergies achieved by the proximity of projects to one another in terms of facilitating smooth movement of manpower and machinery and negotiation of bulk discounts from the suppliers. The order book, however, continues to remain concentrated on the road segment, signifying sectorial concentration as well.

Support provided to some of the group SPVs

The group has seven operational projects under its portfolio as on March 2019 including four toll projects, two annuity projects and one OMT (operate-maintain-transfer) project. Additionally, seven HAM projects are under construction/implementation stage. PIL is supporting a few of its SPVs (both toll-based and annuity-based, namely GAEPL, PNC Delhi Industrial Infra Private Limited and PNC Bareilly Nainital Highways Private Limited) in meeting their funding commitments and going forward, an improvement in operating performance of these SPVs will remain crucial for minimising PIL's support. In GAEPL, PIL and PNC Infra Holdings Limited have already signed share purchase agreements (SPAs) for divestment of its stake in the project and no-objection certificates (NOCs) from all the lenders as well as regulatory authorities are in place. The final permission from NHAI is expected shortly, subsequent to which the proceeds are likely to be realized.

During the FY21, the toll operations of the Group SPVs are expected to remain hampered in the next few months on account of the Covid-19 pandemic and its repercussions on the economic activity in general. PIL might be required to extend support to its underlying SPVs towards their operational as well as debt servicing requirements. However, given the healthy liquidity position of PIL and its demonstrated track record of supporting its SPVs in the past, it is well placed to provide such a need-based support.

Liquidity : Strong

On account of healthy cash accruals, PIL's cash and bank balance stood at Rs.434.86 crore as on December 31, 2019. Its liquidity is also supported by unutilised bank lines. The average working capital utilization was negligible (around 1%) during the 12-month period ending Jan'20 (19% during 12 month period ended Feb'19). The company generated gross cash accruals of Rs.415 crore during FY19 (Rs. 475 cr during 9MFY20) against which it has debt repayment obligations of around Rs 41 crore in FY20 and Rs. 91 cr in FY21.

Analytical approach: Standalone taking into account support/ investments in its subsidiary/ associate companies

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology- Construction sector
Financial ratios – Non-financial sector
Rating Methodology- Short term instruments
Rating Methodology: Factoring Linkages in Ratings

About the Company

PIL (CIN No.: L45201DL1999PLC195937), based out of Agra, Uttar Pradesh, having registered office in Delhi, was incorporated in 1999. PIL is engaged in diversified construction activities such as construction of highways, bridges, flyovers, airport runways and allied activities. It also has presence in power transmission sector, undertaking construction for erection of transmission towers. The company is promoted by Mr Pradeep Kumar Jain, Mr Naveen Kumar Jain, Mr Chakresh Kumar Jain and Mr Yogesh Kumar Jain.

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	1,870.93	3,123.14
PBILDT	333.18	480.86
PAT	251.04	324.91
Overall gearing (times)^	0.15	0.37
Interest coverage (times)	10.85	7.50

A: Audited; ^-Including Mobilization Advances as debt

Status of non-cooperation with previous CRA: Not Applicable

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-Bank Overdraft	-	-	-	1000.00	CARE AA-; Stable
Non-fund-based - ST-BG/LC	-	-	-	5000.00	CARE A1+
Term Loan-Long Term	-	-	Feb-2024	700.00	CARE AA-; Stable

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Bank Overdraft	LT	1000.00	CARE AA-; Stable	1)CARE AA-; Stable (04-April-19)	1)CARE AA-; Stable (16-Mar-18)	1)CARE AA-; Stable (13-Feb-17) 2)CARE AA- (26-Sep-16)
2.	Non-fund-based - ST-BG/LC	ST	5000.00	CARE A1+	1)CARE A1+ (04-April-19)	1)CARE A1+ (16-Mar-18)	1)CARE A1+ (13-Feb-17) 2)CARE A1+ (26-Sep-16)
3.	Term Loan-Long Term	LT	700.00	CARE AA-; Stable	1)CARE AA-; Stable (04-April-19)	1)CARE AA-; Stable (16-Mar-18)	1)CARE AA-; Stable (13-Feb-17) 2)CARE AA- (26-Sep-16)
4.	Commercial Paper	ST	-	-	-	1)CARE A1+ (16-Mar-18)	1)CARE A1+ (13-Feb-17)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Name of the Facility- WC	Detailed explanation
A. Financial covenants	**NA**
B. Non-financial covenants	NA

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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