PNC Infratech Limited

November 17, 2020

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long term Bank Facilities	1,700	**CARE AA; Stable (Double A; Outlook: Stable)**	**Revised from CARE AA-; Stable (Double A Minus; Outlook: Stable)**
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 revision in the ratings assigned to the bank facilities of PNC Infratech Ltd (PIL) factors in the substantial accretion to the company's order book position over the past nine months, thereby providing visibility for stepped-up revenues in the foreseeable future. It also considers the sustained and rapid growth in its operations over the past three years, which underscores its ability to win and simultaneously execute large road projects. Further, around 80% of the order-book of the company is from National Highways Authority of India (NHAI) thereby precluding counterparty risk. The ratings are also underpinned by the continued thrust of the Government on the road construction sector, as evidenced in the rapid pace of project awards, in Engineering, Procurement and Construction (EPC) and Hybrid Annuity Model (HAM) modes. The ratings consider the improvement in PIL's financial performance, during FY20 including improved working capital cycle as also its resilient performance during the Covid-19 pandemic, with the company's Q2FY21 performance largely mirroring that of the corresponding quarter last year. The ratings continue to factor in PIL's minimal reliance on external bank debt leading to a comfortable capital structure and healthy debt coverage indicators. The ratings are supported by PIL's strong liquidity position which is expected to enable the company mobilize new work sites without over-reliance on debt as the company executes a larger order book, amid committed equity investments in ongoing 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, remain constrained by its geographical concentration risk, significant equity commitments towards HAM projects, the inherent through-the-lifecycle risks in the HAM projects, including, *inter alia*, variability of annuities to changes in bank rate and inflation indices, during both execution and operation stages, 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.

Rating Sensitivities:

Positive Factors

- Enhanced geographical diversification
- Substantial growth in scale of operations with significantly improved operating profitability, on a sustained basis, and timely progress in HAM projects
- Maintenance of a robust order book position with revenue visibility of 3.0-3.5x with quality counterparties
- Monetization of operating BOT or HAM projects leading to release of capital and further strengthening of the capital structure

Negative Factors

- Delay in receipt of Appointed Date (AD) in HAM projects or execution delays in projects.
- Deterioration in PBILDT margins
- Delays in under-construction HAM projects requiring enhanced support beyond the envisaged equity commitments
- Deterioration in the capital structure or substantial decline in the available liquidity buffer

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in 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 significant 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. It 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.15,800 crore as on September 30, 2020 as against as against Rs.9,758 crore as on January 31, 2020, translating into orders equivalent to 3.20x of FY20 revenue. The operating environment of the company is conducive to growth in the next three years with the increased thrust of the government towards the road construction sector. Under the Government's National Infrastructure Pipeline (NIP), the substantial outlay on road construction – about 18% of the overall Rs 111 trillion plan – is expected to provide the necessary impetus to companies operating in this segment, like PIL. In line with this, NHAI has awarded substantial new orders in H1FY21 worth approximately Rs.47,000 crore. PIL has been awarded four new HAM projects worth Rs.6,596 crore during the first half of calendar year 2020 (refers to the period from January 01 to June 30), wherein the Appointed Date (AD) has not yet been received. Besides, the company is awaiting declaration of AD in Challakere Hariyur HAM Project awarded in June 2018 (financial closure for the same already achieved). Further, PIL has also received one irrigation project in Andhra Pradesh and one water supply project in Uttar Pradesh during Q2FY21 diversifying its revenue segment to some extent. The company has been regularly increasing its fixed asset base (assets worth approximately Rs. 500 crore added over the past three years) commensurate with its increase in order book, which provides it operational flexibility for faster site mobilization and machinery deployment to start and expedite projects. The strong order book position and track record of timely execution provides adequate revenue visibility for the medium term.

Improved financial performance during FY20; stabilisation of operations during Q2FY21 subsequent to easing of lockdown
PIL's total operating income increased by around 58% y-o-y, from Rs.3,123 crore in FY19 to Rs 4,937 crore in FY20, primarily on account of its efficient execution of the order book as well as the new orders secured by the company. Further, the operating performance of the company remained stable as reflected by PBILDT margin of 14.81% (excluding arbitration claims received during the year) in FY20 as against 15.35% (excluding arbitration claims received during the year) in FY19. Nonetheless, the PAT margin of the company moderated, while remaining healthy at 9.32% in FY20 (as against 10.40% in FY19) on account of increased interest costs due to higher mobilization advances availed by the company towards execution of its HAM projects. Gross cash accruals (GCA) were higher at Rs. 574 crore in FY20 as against Rs.415 crore in FY19.

During H1FY21, the company reported a total operating income at Rs.1,993 crore as against Rs.2560 crore achieved in H1FY20 primarily on account of the Covid-19 pandemic, which resulted in nationwide lockdown leading to stoppage of works at various construction sites for major part of Q1FY21. Further, during H1FY20, PIL had received arbitration award with interest aggregating to Rs. 145.55 crore for its Garh Mukteshwar to Moradabad Project which resulted in increased turnover as well as margins during H1FY20. The company's operations, however, have been ramped up gradually subsequent to lifting of lockdown during Q2FY21 and the company's performance is almost comparable with the corresponding period after adjusting the arbitration award. PIL is expected to post marginal growth over the previous year during the FY21, despite the subdued H1FY21 results on the backdrop of strong order book position and normalization of operations.

Comfortable financial risk profile, strong liquidity position and efficient working capital management
PIL's working capital cycle improved from 73 days in FY19 to 43 days in FY20, mainly on account of improvement in the collection period from 97 days in FY19 to 64 days in FY20. Gross current asset days of PIL also improved and remained moderate at 113 days during FY20 as against 169 days during FY19, on account of efficient working capital management.
Further, PIL's liquidity profile remains strong with negligible utilization of working capital limits, which stood at an average of less than 1% for the 12 month-period ending September 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 FY20, PIL availed higher mobilization advances towards execution of its HAM projects. The same resulted in overall gearing to 0.40x (PY: 0.37x) as on 31st March 2020, remaining at comfortable levels. The Interest coverage ratio stood comfortable at 7.21x (PY: 7.50x) during FY20. With the execution of order book during H1FY21 and

lower reliance on mobilisation advances during the current FY, the company's gearing has improved to 0.15x as on September 30, 2020. The company has significant cash and bank balance on its book, which stood at about Rs.700 crore as on September 30, 2020. The available liquidity is expected to enable the company to mobilize new work sites without over reliance on bank debt as the company undertakes new orders and increase its scale of operations.

Operational portfolio of seven BOT projects, 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-FY20, the company has won a total of 10 projects under HAM. The company has recently been awarded one HAM project in June 2020. The total equity requirement for these 11 HAM projects is around Rs.1,469 crore, out of which PIL has already infused Rs.443 crore as on March 31, 2020. PIL has to further infuse about Rs.1,025 crore over the span of next 3-4 years. Considering the scale of operations of the company with GCA of about Rs.575-600 crore annually and the company's sound liquidity and healthy capital structure, it is expected that the company is comfortably placed to meet the equity requirements for the HAM projects from its internal accruals.

Key Rating Weaknesses
Geographical and sectoral concentration of order book
The current order book remains concentrated in the state of Uttar Pradesh (about 70% of the total order book as on September 30, 2020). Hence, any unfavourable change in State Government policies, or any rules and regulations restraining construction activities in this region can affect the company's operations. Nonetheless, the geographical risk is offset by the operational synergies derived by the proximity of projects to one another in terms of facilitating smooth movement of manpower and machinery. Moreover, though the projects are geographically concentrated; majority of these projects have been awarded by NHAI.
The order book continues to remain concentrated in the road segment, signifying sectoral concentration. Though PIL has recently been L1 in one irrigation project in Andhra Pradesh and has been awarded a water supply project in Uttar Pradesh during Q2FY21 thereby diversifying its revenue segment to some extent. Going forward, the company expects to bid for new orders in the water supply segment and irrigation works. While, on the one hand, such forays would lead to diversification, on the other, these sectors being new business areas for PIL, their impact on overall company profitability and operational efficiency would need to be seen.

Support provided to some of the group SPVs
The group has seven operational projects under its portfolio as on March 2020 including four toll projects, two annuity projects and one OMT (operate-maintain-transfer) project. Additionally, out of total 11 HAM projects, 10 projects are in under-construction/implementation stage. In the past, PIL has extended need-based support to its SPVs, if required, especially to Ghaziabad-Aligarh Expressways Private Limited (GAEPL), PNC Delhi Industrial Infra Private Limited and PNC Bareilly Nainital Highways Private Limited. However, going forward, due to improvement in performance of these SPVs is expected and will remain crucial for minimising PIL's support. In GAEPL, PIL and PNC Infra Holdings Limited had signed share purchase agreements (SPAs) for divestment of its stake in the project. However, the said SPA stands lapsed, as the validity of the SPA expired before the closure of the deal and the parties have decided not to extend the validity further. The company along with its co-promoters have initiated fresh discussions with another prospective investor who has evinced interest in the project asset. The discussions are under way and the company expects the deal to be consummated in FY21.
During FY21, PIL may also be required to extend support to some of its SPVs/ associated companies due to the Covid-19 pandemic and its repercussions on the economic activity in general. 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 need-based support, if required.

Liquidity: Strong
On account of sustained healthy cash accruals, PIL's cash and bank balance stood at about Rs.700 crore as on September 30, 2020. Its liquidity is also supported by substantial unutilized bank lines of Rs. 1000 crore. The average working capital utilization was negligible (around 0.3%) during the 12-month period ending Sep'20. The company generated gross cash accruals of Rs.575 crore during FY20 against which it has debt repayment obligations of around Rs.102 crore in FY21 and expected equity infusion of around 270 crore in FY21.
PIL had availed moratorium for its term loan installments with effect from April 1, 2020, for a period of five months towards deferment of their debt obligations under the COVID-19 - Regulatory Package announced by the RBI on March 27, 2020 and May 22, 2020.

Analytical approach: Standalone, factoring in extension of support/ investments to its subsidiary/ associate companies.

Applicable Criteria
[Criteria on assigning Outlook and Credit Watch to Credit Ratings]
[CARE's Policy on Default Recognition]
[Rating methodology-Construction Sector]
[Rating Methodology-Consolidation]
[Liquidity Analysis of Non-Financial Sector entities]
[Financial ratios-Non Financial Sector]
[Short Term Instruments]

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 was 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)	FY19 (A)	FY20 (A)
Total operating income	3,123.14	4,937.41
PBILDT	480.86	824.26
PAT	324.91	460.30
Overall gearing (times) ^	0.37	0.40
Interest coverage (times)	7.50	7.21

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-Cash Credit	-	-	-	1000.00	CARE AA; Stable
Non-fund-based - ST-BG/LC	-	-	-	5000.00	CARE A1+
Term Loan-Long Term	-	-	February 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 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.	Fund-based - LT-Cash Credit	LT	1000.00	CARE AA; Stable	1)CARE AA-; Stable (15-Sep-20) 2)CARE AA-; Stable (03-Apr-20)	1)CARE AA-; Stable (04-Apr-19)	-	1)CARE AA-; Stable (16-Mar-18)
2.	Non-fund-based - ST-BG/LC	ST	5000.00	CARE A1+	1)CARE A1+ (15-Sep-20) 2)CARE A1+ (03-Apr-20)	1)CARE A1+ (04-Apr-19)	-	1)CARE A1+ (16-Mar-18)
3.	Term Loan-Long Term	LT	700.00	CARE AA; Stable	1)CARE AA-; Stable (15-Sep-20) 2)CARE AA-; Stable (03-Apr-20)	1)CARE AA-; Stable (04-Apr-19)	-	1)CARE AA-; Stable (16-Mar-18)
4.	Commercial Paper	ST	-	-	-	-	1)Withdrawn (31-Mar-19)	1)CARE A1+ (16-Mar-18)

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

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Non-fund-based - ST-BG/LC	Simple
3.	Term Loan-Long Term	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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