PNC Infratech Limited

March 16, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	1050 (enhanced from Rs.800 crore)	**CARE AA-; Stable [Double A Minus; Outlook: Stable]**	Reaffirmed
Short-term Bank Facilities	3350 (enhanced from Rs.1,700 crore)	**CARE A1+ [A One Plus]**	Reaffirmed
Total Facilities	**4,400 (Rs. Four thousand four hundred crore only)**		
Commercial Paper*	100 (Rs. One hundred crore only)	**CARE A1+ [A One Plus]**	Reaffirmed

**to be carved out of working-capital limits*
Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of PNC Infratech Ltd (PIL) continue to derive strength from established track record of timely execution of projects, experience of the promoters in the road construction industry, strong order book position, stable profitability margins demonstrated over the years, comfortable capital structure and debt coverage indicators and comfortable liquidity position.

The ratings are partially offset due to moderated operational and financial performance during FY17 and 9MFY18, order book concentration risk, significant equity commitment for HAM projects, moderate level of financial support towards few SPVs in which PIL has majority/substantial minority stakes, inherent cyclical trends associated with the construction sector and moderately working capital intensive nature of operations.

Going forward, timely execution of the order book within the envisaged cost, ability to sustain profitability margins, performance of various BOT and HAM projects and efficient management of working capital requirements shall be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and long track record of operations: The promoters of PIL have long experience in the construction & infrastructure sector and are able supported by a team of qualified engineers with expertise in road and highway construction. The company has executed 60 major infrastructure projects in 13 states across India.

Consistent order inflows over the year, strong order book with majority of contracts on EPC basis: The company's order book stood healthy at approximately Rs.10,135 crore as on December 31, 2017 (including 6-laning of Chakeri to Allahabad HAM project for which LoI has already been awarded) with road projects being the core area of competence for the company. The growth in order book over the years and track record of timely execution provides revenue visibility for medium term.

Comfortable financial risk profile: Liquidity profile of the company remained strong with minimal utilization of working capital limits for the 12 months period ending January 31, 2018. Capital structure and coverage indicators are also robust with overall gearing ratio at 0.23x as on March 31, 2017 (0.20x as on March 31, 2016), interest coverage ratio of 12.47x and total debt/GCA of 1.43x for FY17. Slight increase in overall gearing was on account of borrowings which were majorly

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

utilized to finance equipment purchase for executing future orders. Free cash & bank balance as on December 31, 2017 stood at Rs.63.72 (Rs.8.30 crore as on March 31, 2017) crore at standalone level.

All BOT projects operational, equity requirement of around Rs.600 crore for under construction HAM projects: As on March 31, 2017, the company has invested Rs.467.57 crore as equity in the BOT portfolio. The entire equity requirement for company's BOT projects has already been infused by PIL, thereby considerably reducing the investment commitment risks. Further, the portion of BOT projects in the total outstanding order book has also reduced considerably over the last 1-2 years.

During FY17 and FY18 so far, the company has won total of 5 projects under Hybrid Annuity model. Under the HAM model, 40% of the funds will be received as grant from NHAI during construction phase, thereby lowering the funding risk to an extent. Out of the 5 projects, the company has achieved financial closure in 4 of the projects (Dausa-Lalsot, Chitradurga-Davanagere, Jhansi-Khajuraho package I and II) and appointed date is already received for 3 projects (Dausa-Lalsot, Chitradurga-Davanagere and Jhansi-Khajuraho package II) while appointed date for remaining 1 project (Jhansi-Khajuraho package I) is expected to be received by March 2018 end.

Total equity commitment on PIL for these projects is around Rs.600 crore which needs to be infused in next 2-2.5 years (including equity requirement for recently won Chakeri-Allahabad HAM wherein concession agreement is yet to be signed). As on December 31, 2017, the company has already infused equity of around Rs.30 crore.

Industry prospects: While the construction industry would continue to witness cyclical trends due to inherent nature of the industry, the long-term outlook for construction sector in stable. The construction industry contributes around 8% to India's Gross domestic product (GDP). The sector was marred by varied challenges during the last few years on account of economic slowdown, regulatory changes and policy paralysis which had adversely impacted the financial and liquidity profile of players in the industry. Government of India has undertaken several steps for boosting the infrastructure development and revive the investment cycle. The same has gradually resulted in increased order inflow and movement of passive orders in existing order book. The focus of the government on infrastructure development is expected to translate into business potential for the construction industry in the long-run. Going forward, companies with better financial flexibility would be able to grow at a faster rate by leveraging upon potential opportunities. Also, the sector is expected to benefit from the increased target award activity owing to Bharatamala project.

Key Rating Weaknesses

Subdued financial performance during FY17 and 9MFY18: PIL reported PAT of Rs.209.91 crore on a total operating income of Rs.1719.41 crore in FY17 as against PAT of Rs.234.52 crore on a total operating income of Rs.2022.51 crore in FY16. The decline was mainly on account of excessive rains during 2nd quarter, demonetization period impacting execution during 3rd quarter and delay in receipt of appointed dates in some of the bigger projects on account of delay in land acquisitions by NHAI. Also, progress of ongoing work also suffered on account of ban on inter-state transportation of mineral, sand mining etc in the state of Uttar Pradesh during H2FY17. Nevertheless, PBILDT margins improved to 14.73% for FY17 as against 13.57% for FY16.

During 9MFY18, the company reported PAT of Rs.139.51 crore on a total operating income of Rs.1114.08 crore as against PAT of Rs.175.95 crore on a total operating income of Rs.1374.52 crore in 9MFY17.

Moderately working capital intensive nature of operations: The working capital cycle of the company increased from 96 days in FY16 to 133 days in FY17 mainly on account of increase in collection days from 75 days in FY16 to 126 days in FY17 (collection days including mobilization advances to sub-contractors, retention money and security deposits). Nevertheless, in absolute terms, total outstanding receivables reduced to Rs.535.63 crore as on September 30, 2017 as against Rs.630.86 crore as on March 31, 2017.

Order book concentration risk: Top 6 orders account for around 74% of total outstanding order book (excluding recently won Chakeri to Allahabad HAM project) as on December 31, 2017 leading to order book concentration risk. Also, the current order book remains concentrated in the state of Uttar Pradesh (accounts for less than 50% of the total order book as on December 31, 2017), though the same has come down from 99% in FY16 due to new orders secured in the states of

Bihar, Uttarakhand, Rajasthan, MP and Karnataka which has helped in reducing the geographical concentration risk to a certain extent.

Support provided to some of the group SPVs: The group has 7 operational projects under its portfolio as on March 2018 including 4 toll projects, 2 annuity projects and 1 OMT project. Additionally, 5 HAM projects are under construction/implementation stages. The operating performance of most of the toll road SPVs has been comfortable with increasing toll revenue trend. However, PIL is supporting few of the SPVs (both toll based and annuity based, namely Ghaziabad Aligarh Expressway Private Limited, PNC Delhi Industrial Infra Private Limited and PNC Bareilly Nainital Highways Private Limited) for meeting their funding commitments and going forward, improvement in operating performance of these SPVs remain crucial.

Analytical approach: Standalone

Applicable Criteria

CARE's methodology for Infrastructure sector ratings
Criteria for Short Term Instruments
Criteria on assigning Outlook to Credit Ratings
Financial ratios – Non-financial sector
CARE's Policy on Default Recognition

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.

Brief Financials – Standalone (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	2022.51	1719.41
PBILDT	274.37	253.27
PAT	234.52	209.91
Overall gearing (times)^	0.20	0.23
Interest coverage (times)	6.87	12.47

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

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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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	-	-	-	750.00	CARE AA-; Stable
Non-fund-based - ST-BG/LC	-	-	-	3350.00	CARE A1+
Term Loan-Long Term	-	-	Mar-2022	300.00	CARE AA-; Stable
Commercial Paper	Proposed	-	-	100.00	CARE A1+

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 2017-18	Date(s) & Rating(s) assigned in 2016-17	Date(s) & Rating(s) assigned in 2015-16	Date(s) & Rating(s) assigned in 2014-15
1.	Fund-based - LT-Bank Overdraft	LT	750.00	CARE AA-; Stable	-	1)CARE AA-; Stable (13-Feb-17) 2)CARE AA- (26-Sep-16)	1)CARE A+ (27-Oct-15) 2)CARE A (24-Apr-15)	1)CARE A (04-Apr-14)
2.	Non-fund-based - ST-BG/LC	ST	3350.00	CARE A1+	-	1)CARE A1+ (13-Feb-17) 2)CARE A1+ (26-Sep-16)	1)CARE A1+ (27-Oct-15) 2)CARE A1 (24-Apr-15)	1)CARE A1 (04-Apr-14)
3.	Term Loan-Long Term	LT	300.00	CARE AA-; Stable	-	1)CARE AA-; Stable (13-Feb-17) 2)CARE AA- (26-Sep-16)	1)CARE A+ (27-Oct-15) 2)CARE A (24-Apr-15)	1)CARE A (04-Apr-14)
4.	Commercial Paper	ST	100.00	CARE A1+	-	1)CARE A1+ (13-Feb-17)	-	-

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