PNC Infratech Limited

April 04, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	1,700 (enhanced from 1,050)	**CARE AA-; Stable [Double A Minus; Outlook: Stable]**	**Reaffirmed**
Short-term Bank Facilities	5,000 (enhanced from 3,350)	**CARE A1+ [A One Plus]**	**Reaffirmed**
Total Facilities	**6,700 (Rupees Six thousand and seven hundred crore only)**		

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 strong order book position, improved financial performance during FY18 and 9MFY19, stable profitability margins demonstrated over the years, comfortable capital structure and debt coverage indicators and comfortable liquidity position. The ratings further derive comfort from established experience of the promoters in the road construction industry and track record of timely execution of projects.

The ratings are, however, tempered by 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 moderate working capital intensive nature of operations.

Going forward, timely execution of the order book within the envisaged cost, ability to sustain profitability margins and capital structure, efficient management of working capital requirements and performance of various BOT and HAM projects shall be 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 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 received bonus for some of its projects for early completion.

Consistent order inflows over the year and strong order book position

The company's order book stood healthy at Rs.7,965 crore as on December 31, 2018 (excluding three HAM projects where financial closure is achieved, though appointed date is awaited from NHAI viz. Chakeri-Allahabad, Aligarh-Kanpur and Challakere-Hariyur with value of about Rs.3,834 crore and EPC project for Nagpur-Mumbai Six Lane Expressway with value of about Rs.2,000 crore) with road projects being the core area of competence for the company. The strong order book position and track record of timely execution provides revenue visibility for the medium term.

Improved financial performance during FY18 and 9MFY19

The total operating income of the company increased by around 9% y-o-y, from Rs.1,719 crore in FY17 to 1,871 crore in FY18, mainly on account of increase in pace of execution of the order book. Also, PBILDT margin improved to 17.81% in FY18 as against 14.71% in FY17 and PAT margin improved from 12.20% in FY17 to 13.42% in FY18. Gross Cash Accruals (GCA) was higher at Rs.321.78 crore in FY18 as against Rs.256.93 crore in FY17.

During 9MFY19, the company has reported total operating income of Rs.2,051.95 crore (y-o-y growth of 84.2%) and PAT of Rs.184.98 crore (y-o-y growth of 32.6%), as against total operating income of Rs.1,114.08 crore and PAT of Rs.139.51 crore during 9MFY18. PBILDT and PAT margins stood healthy at 16.42% and 9.01% respectively.

Comfortable financial risk profile and liquidity position

The liquidity profile of the company remains strong with minimal utilization of working capital limits for the 12 months period ending February 2019. Capital structure and coverage indicators are also robust with overall gearing ratio at 0.15x as on March 31, 2018 (0.23x as on March 31, 2017), interest coverage ratio of 10.85x and total debt/GCA of 0.82x for FY18. Cash & bank balance stood at Rs.61.25 crore as on December 31, 2018 (Rs.147.29 crore as on March 31, 2018) at standalone level.

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

All BOT projects operational, further equity requirement of around Rs.600 crore for under construction HAM projects: As on December 31, 2018, the company has invested Rs.463 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.

The company has 7 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 7 projects, construction has started in 4 projects (Dausa-Lalsot, Chitradurga-Davanagere, Jhansi-Khajuraho package I and II) while financial closure is achieved and appointed date is awaited for remaining 3 projects (Chakeri-Allahabad, Aligarh-Kanpur and Challakere-Hariyur). The progress on the under-construction projects is satisfactory and the company has received payments for 3 milestones in Dausa-Lalsot, for 2 milestones in Chitradurga-Davanagere and Jhansi-Khajuraho Package II and for 1 milestone in Jhansi-Khajuraho Package I.

Total equity commitment for all the 7 HAM projects is around Rs.830 crore, of which about Rs.230 crore has been invested by PIL till December 31, 2018 and remaining about Rs.600 crore needs to be infused in the next 2-2.5 years. With healthy cash accruals in excess of Rs.300 crore on an annual basis, it is expected that the equity requirements for HAM projects would be met from the internal accruals of the company.

Industry Outlook

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

Moderate working capital intensive nature of operations: Though the working capital cycle of the company decreased from 133 days in FY17 to 106 days in FY18 on account of increase in payable days from 41 days to 82 days, the collection days increased from 126 days in FY17 to 149 days in FY18 (collection days including mobilization advances to sub-contractors, retention money and security deposits).

Order book concentration risk: Top 6 orders account for 75% of the total outstanding order book (excluding HAM projects where appointed date is awaited) as on December 31, 2018, leading to order book concentration risk. Also, the current order book remains concentrated in the state of Uttar Pradesh (43% of the total order book as on December 31, 2018), though the same has come down in the last few years due to new orders secured in the states of Bihar, Uttarakhand, Rajasthan, Madhya Pradesh 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, 7 HAM projects are under construction/implementation stage. 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, an improvement in operating performance of these SPVs will remain crucial. Further, for PNC Delhi project, the arbitration award of Rs.183 crore has been upheld by Hon'ble High Court of Delhi in favor of the company, of which Rs.43 crore was received by the company in January 2018 and remaining award amount of Rs.140 crore is expected to be received by Q1FY20.

Analytical approach: Standalone, while factoring in the support required to be extended to SPVs and equity commitments towards HAM projects.

Applicable Criteria

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

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	1,719.41	1,870.93
PBILDT	252.86	333.18
PAT	209.69	251.04
Overall gearing (times)^	0.23	0.15
Interest coverage (times)	12.45	10.85

A: Audited
^-Including Mobilization Advances as debt
Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
Rating History (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	-	-	-	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Bank Overdraft	LT	1000.00	CARE AA-; Stable	-	1)CARE AA-; Stable (16-Mar-18)	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)
2.	Non-fund-based - ST-BG/LC	ST	5000.00	CARE A1+	-	1)CARE A1+ (16-Mar-18)	1)CARE A1+ (13-Feb-17) 2)CARE A1+ (26-Sep-16)	1)CARE A1+ (27-Oct-15) 2)CARE A1 (24-Apr-15)
3.	Term Loan-Long Term	LT	700.00	CARE AA-; Stable	-	1)CARE AA-; Stable (16-Mar-18)	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)
4.	Commercial Paper	ST	-	-	-	1)CARE A1+ (16-Mar-18)	1)CARE A1+ (13-Feb-17)	-

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