PNC Infratech Limited

September 15, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	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 to the bank facilities of PNC Infratech Ltd (PIL) continues to factor in the company's strong order book position, improved financial performance during FY20, stable profitability margins demonstrated over the years, efficient working capital management leading to improved working capital cycle, comfortable capital structure and healthy debt coverage indicators. The ratings are also strengthened by PIL's strong liquidity position, notwithstanding a substantial increase in scale of operations and committed equity investments in ongoing 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 risk, its significant equity commitments towards HAM projects, the inherent through-the-lifecycle risks in the HAM projects, 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 and the expected adverse impact of the Covid-19 pandemic on the business profile in the short term across the construction sector, which also impacted the Q1FY21 operational performance of the company.

Rating Sensitivities

Positive Factors

- Enhanced geographical diversification
- Growth in scale of operations as envisaged with improved operating profitability 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 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

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and long track record of operations

The promoters of PIL have vast 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.

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

Healthy growth in order book giving medium term revenue visibility

The company's order book has witnessed healthy growth and stood at Rs.15,525 crore as on June 30, 2020 as against Rs.9,758 crore as on January 31, 2020, translating into orders equivalent to 3.14x of FY20 revenue. 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). 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 gives it operational flexibility for faster site mobilization and machinery deployment to start and expedite a project. The strong order book position and track record of timely execution provides adequate revenue visibility for the medium term.

Improved financial performance during FY20

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 improved as reflected by PBILDT margin of 16.69% in FY20 as against 15.40% 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 Q1FY21, the company reported a decline in total operating income at Rs.925 crore as against Rs.1335 crore achieved in Q1FY20 primarily on account of Covid-19 pandemic, which resulted in nationwide lockdown leading to stoppage of works at various construction sites for major part of April 2020. Subsequent to relaxation in lockdown also, the impact of the labour movement due to the lockdown and also supply chain disruptions continued to impact the construction activities, which is being ramped up gradually and are expected to normalise post monsoons. However, despite decline in the operating income, the company reported improved PBILDT margin at 15.02% during Q1FY21 as against 14.46% during Q1FY20.

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 152 days during FY20 as against 246 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 0.36%, for the 12 month-period ending June 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 moderation of its overall gearing to 0.40x (PY: 0.37x) as on 31st March 2020, while still remaining at comfortable levels. Despite the increased debt levels, Interest coverage ratio stood comfortable at 7.21x (PY: 7.50x) during FY20. The cash and bank balance stood at Rs.668 crore as on June 30, 2020.

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 Rs.575 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 (75% of the total order book as on June 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, however, continues to remain concentrated in the road segment, signifying sectoral concentration as well.

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, 11 HAM 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, an improvement in operating 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 by FY21.

During FY21, PIL may also be required to extend support to some of its SPVs 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.

Liquidity: Strong

On account of healthy cash accruals, PIL's cash and bank balance stood at Rs.668 crore as on June 30, 2020. Its liquidity is also supported by substantial unutilized bank lines. The average working capital utilization was negligible (around 0.3%) during the 12-month period ending Jun'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 crores in FY21.

PIL has 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

CARE's criteria on rating outlook and credit watch
CARE's Policy on Default Recognition
CARE's Policy on curing period
Rating methodology-Construction Sector
Rating Methodology- Consolidation and Factoring linkages in Ratings
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

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 (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+ (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 (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.*

Contact us

Media Contact
Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact
Name – Jasmeen Kaur
Contact No: +91-11-45333245
Email ID –jasmeen.kaur@careratings.com

Name – Mr. Harish Chellani
Contact No. – 011-4533 3222
Email ID – harish.chellani@careratings.com

Relationship Contact
Name - Swati Agrawal
Contact no. : +91-11-45333237
Email ID – swati.agrawal@careratings.com

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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