Press Release

P&R Infraprojects Limited

March 23, 2020

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Ratings Assigned
1.	Long Term Bank Facilities– Cash Credit	25.00	IVR BBB-/Stable (IVR Triple B minus with Stable Outlook)
2.	Short Term Bank Facilities– Bank Guarantee	105.00	IVR A3 (IVR A Three)
	Total	**130.00**	

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of P&R Infraprojects Limited (PRIL) derives comfort from its experienced promoters, long track record of operations with proven project execution capabilities backed by sound engineering acumen and backward integration initiatives taken by the company, reputed clientele and strong order book position reflecting satisfactory medium-term revenue visibility. The ratings also positively factor in its healthy profitability and comfortable capital structure with healthy debt protection metrics and expected growth in FY20. These rating strengths, however are tempered by susceptibility of its operating margin to volatile input prices, presence in highly fragmented & competitive construction sector, working capital intensive nature of operation marked by elongated collection period and moderation in scale of operation during FY19.

Key Rating Sensitivities

Upward Rating Factors

- Growth in scale of operations with improvement in profitability and debt protection metrics on a sustained basis
- Sustenance of the capital structure
- Manage working capital requirements efficiently with improvement in liquidity position

Downward Rating Factors

- Moderation in scale of operations and/or profitability impacting the debt protection metrics on a sustained basis
- Moderation in the capital structure

- Elongation in the operating cycle impacting the liquidity profile

Detailed Description of Key Rating Drivers

Key Rating Strengths:

Experienced promoters

The promoters are well qualified, has vast experience in the construction sector, and are well supported by a team of experienced and qualified professionals.

Long record of accomplishment of operations with sound engineering acumen with proven project execution capability

Being in operation since 1986, the company has a vast record of accomplishment of more than three decades. Over the years, the company has acquired strong engineering acumen through its successful operations and completed over 200 large, medium and small-sized projects for Thermal Power Plants, Hydro-Power Plants, Penstocks, Chimneys, Cooling Towers, Storage Tanks, Bridges, Flyover, Stadiums, etc. across the states of Odisha, West Bengal, Uttar Pradesh, Jammu & Kashmir, Himachal Pradesh, Delhi, Bhutan, Sikkim, Kerala, Maharashtra, Uttarakhand, Andhra Pradesh and Punjab ensuring timely completion of all its projects. The repeat orders received from its clientele validate its construction capabilities.

Backward integration initiatives

PRIL has its own steel structure manufacturing facility in Punjab. Having its own facility boost the profitability of the company.

Reputed clientele

PRIL bids for tenders floated by various government departments/entities and caters to private players. Moreover, the company also works as a sub-contractor for other contractors. Over the years of its operations, the company has established a strong business relationship with various government departments as well as private clients.

Strong order book position reflecting satisfactory medium-term revenue visibility

The company has a strong unexecuted order book of Rs.390.95 crore as on December 31, 2019, which is about 2.8x of its FY19 (audited) construction revenue (i.e.Rs.139.61 crore). The orders are expected to be completed within next one-two years, indicating a satisfactory near to medium term revenue visibility.

Healthy profitability

Over the past three years, the company has maintained a healthy profitability marked by satisfactory EBITDA margin, healthy PAT margin and comfortable gross cash accruals. In FY19, PRIL witnessed a healthy improvement in its EBIDTA margin from 10.77% in FY18 to

15.22% in FY19. The improvement was mainly because of consistent cost control and efficiency measures stipulated by the Company. In addition, the Company did certain capital expenditure at its plant and machinery and back-end infrastructure, which has reduced the operating overheads and brought in efficiency. Driven by improvement in EBITDA margin and EBITDA level the PAT margin also improved from 3.72% in FY18 to 4.35% in FY19. Further, in 9MFY20, PRIL achieved total operating income of Rs.115.6 crore.

Comfortable capital structure with healthy debt protection metrics

The overall gearing of the company stood comfortable at 0.43x as on March 31, 2019. Moreover, the overall gearing incl. interest bearing mobilization advances stood satisfactory at 0.71x as on March 31, 2019. The debt protection indicators of the company like interest coverage have remained above 2.50x for the past three financial years (FY19-FY17) and stood satisfactory at 2.52x in FY19. Total Debt/GCA though moderated from 2.18 years in FY18 to 2.75 years in FY19 mainly due to increase in short term borrowings continued to remain satisfactory. Further, total indebtedness of the company as reflected by TOL/Adj. TNW remained comfortable at 1.62x as on March 31, 2019.

Key Rating Weaknesses

Moderation in the scale of operation during FY19 though growth expected in FY20

PRIL witnessed moderation in its scale of operation and the total operating income deteriorated from Rs.179.80 crore in FY18 to Rs.139.23 crore in FY19. The moderation was due to lack of orders in hand during FY18 and FY19 and consequent lower execution on account of company’s strategy to complete the existing high value large contracts to gain eligibility for similar contracts in future instead of aggressive bidding for new contracts. However, on successful completion of high value large contracts the company gained big ticket contracts during FY20 and achieved a healthy order book position. Infomerics expects steady growth in PRIL’s business in FY20.

Susceptibility of operating margin to volatile input prices

Major raw materials used in civil construction activities are steel & cement and in road construction activities are stone, asphalt/bitumen and sand, which are usually sourced from large players/dealers at proximate distances. The raw material & labour (including sub-contracting) cost forms the majority chunk of the total cost of sales for the last three years. As the raw material prices & labour (including sub-contracting) cost are volatile in nature, the profitability of the company is subject to fluctuation in raw material prices & labour (including sub-contracting) cost. However, presences of price escalation clause (for raw materials) in almost all of the contracts protect the margin largely.

Highly fragmented & competitive nature of the construction sector

The domestic infrastructure/construction sector is highly crowded with presence of many players with varied statures & capabilities. Boom in the infrastructure sector, a few years back, resulted in increase in the number of players. While the competition is perceived to be healthy, significant price cut by few players during the bidding process is a matter of serious concern for the users with respect to quality of output.

Working capital intensive nature of operation marked by elongated collection period

Construction business, by its nature, is working capital intensive as large part of working capital remains blocked as earnest money deposits and retention money. Further, the company's revenue is skewed towards the last two quarters with higher proportion in the last quarter of the fiscal. Consequently, the year-end receivables generally remained high. The collection period remained high and deteriorated to 190 days in FY19 (117 days in FY18) mainly due to higher execution of work in Q4FY19. The working capital requirement of the company is mainly funded through credit period availed from its creditors based on its established relationship, need based mobilization advances availed and through bank borrowings. Further, the company has a strategy to take up short to medium duration contracts and optimize the execution time to realize the payments faster in order to manage working capital requirements efficiently. Average utilization of its fund-based limit of PRIL is around ~89% for the trailing 12 months ended January, 2020.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Infrastructure Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity: Adequate

Adequate liquidity characterized by its expected gross cash accruals ranging between ~Rs.16-23 crore as against its repayment obligation ranging between ~Rs.3-4 crore during FY20-22. Its capex requirements are modular and expected to be funded through internal accruals and unsecured loans. However, the company has adequate gearing headroom marked by its comfortable capital structure and above unity current ratio as on March 31, 2019. Its bank limits are utilized to the extent of ~90% during the past 12 months ended January 31, 2020 indicating a moderate liquidity buffer.

About the Company

Mr. Paveljeet Singh Ruppal initially formed P&R Infraprojects Limited (PRIL) as a private limited company named, P&R Engineering Services (P) Ltd. in 1986. The company was engaged in fabrication and erection of Structural Steel Engineering, Thermal & Hydro Power Projects & Civil Projects. In 2005, it was reconstituted into a limited company with the name and style of P&R Infraprojects Limited. Currently the company provides civil and mechanical work in the power sector and designing, erection and construction work for infrastructure projects mainly designing, fabrication and erection of heavy structural steel work of all nature and magnitude for Thermal Power Projects, Hydro Power Projects, Bridges, Building Structures, Stadium, etc.

Financials: Standalone

(Rs. Crore)

For the year ended* / As On	31-03-2018 (Audited)	31-03-2019 (Audited)
Total Operating Income	179.23	139.60
EBITDA	19.31	21.24
PAT	6.74	6.13
Total Debt* (excluding Mobilization Advances)	26.58	32.07
Tangible Net worth	67.93	74.07
EBITDA Margin (%)	10.77	15.22
PAT Margin (%)	3.72	4.35
Overall Gearing Ratio (x)	0.39	0.43

*as per Infomerics standards

Status of non-cooperation with previous CRA: India rating moved the rating of PRIL to issuer non-cooperating category vide its press release dated in December 02, 2019 due to unavailability of information.

Any other information: N.A

Rating History for last three years: Not applicable

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Cash Credit	Long Term	25.00	IVR BBB-/Stable	-	-	-
2.	Bank Guarantee	Short Term	105.00	IVR A3	-	-	-

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it based on complexity and a note thereon is available at www.infomerics.com.

Name and Contact Details of the Rating Analyst:

Name: Mr. Archit Aggarwal Tel: (011) 24611910 Email: aaggarwal@infomerics.com	Name: Mr. Avik Podder Tel: (033) 46022266 Email: apodder@infomerics.com

About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facilities – Cash Credit	NA	NA	NA	25.00	IVR BBB-/ Stable Outlook
Short Term Bank Facilities– Bank Guarantee	NA	NA	NA	105.00	IVR A3