Press Release

Patel Engineering Limited (PEL)

November 12, 2020

Rating

Facilities	Amount (Rs. crore)	Current Ratings	Previous Ratings	Rating Action
Long Term Fund Based Facility - Cash Credit	1072.55	IVR BBB/ Credit Watch with Developing Implications (IVR Triple B; Credit watch with developing implications)	IVR BBB/ Positive outlook (IVR Triple B with Positive outlook)	**Reaffirmed with Outlook Revised to Credit Watch with Developing Implications from Positive**
Long Term Fund Based Facility – Working Capital Term Loan	148.20	IVR BBB/ Credit Watch with Developing Implications (IVR Triple B; Credit watch with developing implications)	IVR BBB/ Positive outlook (IVR Triple B with Positive outlook)	**Reaffirmed with Outlook Revised to Credit Watch with Developing Implications from Positive**
Long Term Fund Based Facility - OCD	482.32	IVR BBB/ Credit Watch with Developing Implications (IVR Triple B; Credit watch with developing implications)	IVR BBB/ Positive outlook (IVR Triple B with Positive outlook)	**Reaffirmed with Outlook Revised to Credit Watch with Developing Implications from Positive**
Long Term Fund Based Facility – Term Loan (COVID-19 Sanction)	21.09	IVR BBB/ Credit Watch with Developing Implications (IVR Triple B; Credit watch with developing implications)	-	**Assigned**
Short Term Fund Based Facility - STL	46.10	IVR A3+ (IVR Single A Three Plus)	IVR A3+ (IVR Single A Three Plus)	**Re-affirmed**

Short Term Non Fund Based Facilities – LCs /BGs	4250.43	IVR A3+ (IVR Single A Three Plus)	IVR A3+ (IVR Single A Three Plus)	**Re-affirmed**
Total	**6020.70 (Six Thousand Twenty Crore and Seventy Lakhs)**			

Details of Facilities are in Annexure I

Detailed Rationale

Patel Engineering Limited (PEL's) rating outlook has been revised to Credit Watch with Developing Implications from Positive on account of significant decline in the Q1FY2021 total operating income to Rs. 226.12 crores as against Rs. 478.50 crores for Q4FY2020 and Rs. 598.29 crores for Q1FY2020. The company reported negative PAT of Rs. 36.09 crores in Q1FY2021 as against Rs. 58.54 crores in Q1FY2020. The impact has been mainly due to COVID-19 related restrictions which resulted in almost complete shutdown of the operations in the months of April and May 2020 and has gradually started in June 2020. The Q2FY2021 financial performance is also expected to remain muted. Infomerics believes that the ability of the company to timely execute orders in hand and improve its working capital cycle and manage its cash flows effectively will be a key rating sensitivity.

Further, the current rating continues to derive strength from Experienced promoters having long track record & established presence in the construction sector, Proven project execution capability in big contracts, Established relationship with reputed clients, Healthy and Growing order book reflecting satisfactory medium term revenue visibility and Moderate capital structure. However, these strengths are, partially offset by Debt restructuring in the past, Reduced Operating profit as a consequence of reversal of arbitration awards; while cash profit continues to be buoyant, Working capital intensive nature of the industry, High Amount of

Contingent Liabilities, Volatile input prices and Highly fragmented & competitive nature of the construction sector with significant price war.

Key Rating Sensitivities

Upward rating factor(s) –

- Continued reduction in debt by realisation of actionable claims would call for a positive rating action.

Downward rating factor(s) –

- Scaling up of operations and timely execution of order book resulting in realisation of revenue will be crucial for the coming years and would call for a rating action in case the targeted numbers are not achieved.
- Materialization of contingent liabilities would impact the company's financials substantially owing to its sheer size.

Key Rating Drivers with detailed description

Key Rating Strengths

Experienced promoters having long track record & established presence in the construction sector

The founder promoter group has been associated with the company since inception with the present day-to-day affairs of the group being looked after by the 3rd generation promoter, Mr. Rupen Patel. He is well supported by a management team comprising quite a few highly qualified & experienced professionals. Having a track record of around seven decades, the company has executed various types of civil, structural and road construction projects, in the fields of transportation, irrigation, thermal power, barrages, bridges, infrastructure development, water supply and sewerage systems in India as well as overseas.

Proven project execution capability in big contracts

Over the years, the company has successfully completed many projects across the country for various government bodies and private contractors catering to Hydro-power projects, Irrigation and water supply projects, Urban infrastructure and sewage projects and transportation projects. The repeat orders received from its clientele validate its construction capabilities and the reputation that is built through the years.

Established relationship with reputed clients

The company has various well recognized organizations like NTPC Ltd, NHPC Ltd, NHAI, Atomic Energy of India, Tata Power Ltd., etc. as its clientele. Due to its well established relationship, it has been able to obtain repeat orders from these parties over time. Also, the company has entered into joint ventures with various reputed players like KNR Constructions, Age Construction and Trading Inc, amongst various others. Further, the top 10 customers of the company contributed around 27% of the annual turnover during FY20, indicating a highly diversified clientele profile.

Healthy and Growing order book reflecting satisfactory medium term revenue visibility

The company has a strong and growing order book position of INR 12945.51 crore as on June 30, 2020 (INR 10497 crore as on June 30, 2019) with orders across various contracts which is about 4.59 times of its FY20 consolidated revenue (previously 4.14 times its FY19 consolidated revenue). These orders are expected to be completed within next two-three years, indicating a satisfactory medium term revenue visibility.

Moderate capital structure

The company's capital structure improved further during FY19 marked by overall gearing on Net Adjusted Tangible Net worth of 0.88x as on March 31, 2020 from that of 1.02x as on March 31, 2019 on account of reduction of term debt as well as working capital outstanding. The long term debt to GCA improved substantially from 20.97x as on 31st March 2019 to 10.54x as on 31st March, 2020. The TOL/Book TNW improved from 2.82x to 2.47x as on the account closing day of FY19 and FY20 respectively.

Key Rating Weaknesses

Debt restructuring in the past

Due to the delay in realisation of various actionable claims in the form of arbitration awards and claims pending with various Government entities in the past, the company's account had restructured in early 2017. However, the account has been classified as standard presently with the last delay/default being cleared by the company post implementation of S4A in November 2017.

Reduced Operating profit as a consequence of reversal of arbitration awards; while, cash profit continues to be buoyant.

The EBITDA margins have reduced from 15.25% in FY19 to 7.08% in FY20, from INR 360.12 crore in FY19 to INR 185.33 crore in FY20 on a consolidated level. The EBITDA had mainly decreased in Q4FY20 because of reversal of WIP of two big projects amounting to INR 164 crore. Subsequently there was a reduction in net profit margin from 6.08% in FY19 to 0.39% in FY20. Hence, the same was required to be reversed in the books of PEL, accounted at contract rates as per the arbitration award received in FY16, being an event occurred post balance sheet date but before finalization of audit. Thus, the company has reduced the said amounts from WIP, resulting in reduction of revenue for the quarter Q4FY20 directly impacting the full year EBITDA, which is non cash and not an expenditure incurred during the year.

During Q1FY2021 the company reported lower total operating income of Rs. 226.12 crores and PAT losses of Rs. 36.09 crores mainly on account of COVID-19 related restrictions which resulted in almost complete shutdown of the operations in the months of April and May 2020. The operations have gradually started in June 2020 and the operating performance is expected to improve from Q3FY2021.

Working capital intensive nature of the industry

The construction business is inherently working capital intensive in nature. For this purpose, the company is mainly relying on bank borrowings and long credit period provided by its input suppliers based on its long and established presence. The collection period, for FY20 was 40 days as compared to that of FY19 of 37 days. The average inventory days stood at 534 days in FY20 as compared to 612 days in FY19. This is mainly because of government based projects having long inventory days and presence of projects under arbitration. This resulted in an operating cycle of 389 days in FY20 as compared to that of 450 days in FY19. The average working capital utilisation in the last 12 months ended September, 2020, also stood high at about 93.03%.

High Amount of Contingent Liabilities

The company had total outstanding contingent liability of INR 2401.08 crore as on March 31, 2020 (PY INR 2555.54 crore), which majorly includes counter indemnities given to banks of INR 1417.39 Crore as on March 31, 2020 (PY INR 1334.68 crore) in respect of secured guarantees in favour of group entities, various income tax demands, service tax demands, etc.

Volatile input prices

Major raw materials used in civil/construction activities are steel and cement which are usually sourced from large players at proximate distances. The input prices are generally volatile and have direct linkage with state of the economy which may impact the profitability of PEL.

Highly fragmented & competitive nature of the construction sector with significant price war

The domestic infrastructure/construction sector is highly fragmented with presence of many players with varied stature & 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 and for the contractors for margin.

Analytical Approach: Consolidated Approach

Patel Engineering Limited has stake in various subsidiaries (wholly and partially owned), Joint Ventures and Associates. The consolidation is based to the extent of stake held in each of the entities. All the entities are in the same line of business. They have operational as well as financial linkages and have common promoters. The detailed list of all the entities has been furnished as ‘Annexure II’.

Applicable Criteria

Rating Methodology for Infrastructure Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity – Adequate

The liquidity is considered to be adequate marked by gross cash accruals of Rs. 112.08 crores as against maturing debt obligations of Rs. 34.8 crores in FY2020. The company has cash and bank balance of Rs.106.63 crore as on March 31, 2020. The current ratio stood moderate at 1.17x as on March 31, 2020.

About the Company

Incorporated in 1949, Patel Engineering Ltd (PEL) is one of the oldest players in the civil engineering and construction segment. The company executes civil construction for both Government entities as well as private players. Over the years, it has executed various types of road and highway construction projects along with civil works like dams, tunnels, irrigation projects, refineries, hydroelectric projects, water treatment projects, and so on. As on date, the company has completed construction of around 84 dams, 40 hydroelectric projects and 33 tunnelling projects with around 230 kilometres of tunnelling undertaken. The company's real estate segment also forms an integral part of its operations wherein it holds several land parcels.

Financials (Consolidated): **(INR Crore)**

For the year ended* / As on	31-03-2019	31-03-2020
	(Audited)	(Audited)
Total Operating Income	2362.21	2617.21
EBITDA	360.12	185.33
PAT	154.15	11.13
Total Debt	2698.01	2295.82
Tangible Net worth (Book Value)	2081.63	2400.73
EBIDTA Margin (%)	15.25	7.08
PAT Margin (%)	6.08	0.39
Overall Gearing Ratio (x)	1.02	0.88

* Classification as per Infomerics' standards

Financials (Standalone): **(INR Crore)**

For the year ended* / As on	31-03-2019	31-03-2020
	(Audited)	(Audited)
Total Operating Income	2069.89	2333.06
EBITDA	277.04	101.22
PAT	82.87	37.17
Total Debt	2215.27	1903.75

Tangible Net worth (Book Value)	2178.43	2459.84
EBIDTA Margin (%)	13.38	4.34
PAT Margin (%)	3.52	1.39
Overall Gearing Ratio (x)	1.08	0.98

* Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: N.A.

Any other information: N.A.

Rating History for last three years:

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (INR crore)	Rating	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20 (04.10.19)	Date(s) & Rating(s) assigned in 2018-19
1.	Long Term Fund Based Facility - Cash Credit	Long Term	1072.55	IVR BBB/ Credit Watch with Developing Implications (IVR Triple B; Credit watch with developing implications)	--	IVR BBB/ Positive outlook (IVR Triple B with Positive outlook)	--
2.	Long Term Fund Based Facility – Working Capital Term Loan	Long Term	148.20	IVR BBB/ Credit Watch with Developing Implications (IVR Triple B; Credit watch with developing implications)	--	IVR BBB/ Positive outlook (IVR Triple B with Positive outlook)	--
3.	Long Term Fund Based Facility - OCD	Long Term	482.32	IVR BBB/ Credit Watch with Developing Implications (IVR Triple B; Credit watch with	--	IVR BBB/ Positive outlook (IVR Triple B with Positive outlook)	--

				developing implications)			
4.	Long Term Fund Based Facility – Term Loan (COVID-19 Sanction)	Long Term	21.09	IVR BBB/ Credit Watch with Developing Implications (IVR Triple B; Credit watch with developing implications)	--	-	--
5.	Short Term Fund Based Facility - STL	Short Term	46.10	IVR A3+ (IVR Single A Three Plus)	--	IVR A3+ (IVR Single A Three Plus)	--
6.	Short Term Non Fund Based Facilities – LCs /BGs	Short Term	4250.43	IVR A3+ (IVR Single A Three Plus)	--	IVR A3+ (IVR Single A Three Plus)	--

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

Name and Contact Details of the Rating Team:

Name: Mr. Miraj Bhagat	Name: Mr. Prakash Kabra
Tel: (022) 62396023	Tel: (022) 62396023
Email: mbhagat@infomerics.com	Email: prakash.kabra@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. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

Annexure I: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (INR Crore)	Rating Assigned/ Outlook
Long Term Fund Based Facility - Cash Credit	--	10-11% per annum	On Demand	1072.55	IVR BBB/ Credit Watch with Developing Implications (IVR Triple B; Credit watch with developing implications)
Long Term Fund Based Facility – Working Capital Term Loan	-	-	Ranging from March 2021 to September 2022	148.20	IVR BBB/ Credit Watch with Developing Implications (IVR Triple B; Credit watch with developing implications)
Long Term Fund Based Facility - OCD	--	--	On Demand	482.32	IVR BBB/ Credit Watch with Developing Implications (IVR Triple B; Credit watch with developing implications)
Long Term Fund Based Facility – Term Loan (COVID-19 Sanction)	-	-	24 months	21.09	IVR BBB/ Credit Watch with Developing Implications (IVR Triple B; Credit watch with developing implications)
Short Term Fund Based Facility - STL	--	--	-	46.10	IVR A3+ (IVR Single A Three Plus)
Short Term Non Fund Based Facilities – LCs /BGs	-	-	-	4250.43	IVR A3+ (IVR Single A Three Plus)

Annexure II: List of entities considered for consolidated analysis

Direct Subsidiaries	% of Shareholding
1. Zeus Minerals Trading Pvt. Ltd.	100%
2. Patel Concrete & Quarries Pvt. Ltd.	100%
3. Friends Nirman Pvt. Ltd.	100%
4. Energy Design Pvt. Ltd.	100%
5. Shreeanant Constructions Private Limited	100%
6. Patel Lands Ltd.	100%
7. Michigan Engineers Pvt. Ltd.	51%
8. Patel Engineering Infrastructure Ltd.	100%
9. Patel Energy Resources Ltd.	100%
10. Pandora Infra Pvt. Ltd.	100%
11. Patel Engineers Pvt. Ltd.	100%
12. Patel Patron Pvt. Ltd.	100%
13. Vismaya Constructions Pvt. Ltd.	100%
14. Bhooma Realties Pvt. Ltd.	100%
15. Shashvat Land Projects Pvt. Ltd.	100%
16. Apollo Buildwell Pvt. Ltd.	100%
17. Arsen Infra Pvt. Ltd.	100%
18. Hera Realcon Pvt. Ltd.	100%
19. Lucina Realtors Pvt. Ltd.	100%
20. PBSR Developers Pvt. Ltd.	100%
21. Patel KNR Infrastructure Limited	60%
22. Hampus Infrastructure Limited	100%
23. Waterfront Developers Ltd.	100%
24. Patel Engineering (Singapore) Pte Ltd.*	100%
25. Patel Engineering (Mauritius) Ltd. *	100%
26. Patel Engineering Inc.*	100%
27. Patel Engineering Lanka (Pvt.) Ltd. *	100%

**Financial information is based on unaudited results*

Note:

1. *The Financial year for all the subsidiaries is March 31*
2. *Proposed dividend from any of the subsidiaries is nil.*

Name of Joint Ventures
1. Age Patel JV
2. Navyouga-Patel-Bhel-Consortium
3. Patel Michigan JV
4. Patel SEW JV
5. Patel-Avantika-Deepika-BHEL
6. Patel-Varks-Precision Consortium
7. Patel Varks JV

8. Cico Patel JV
9. Patel KNR JV
10. KNR Patel JV
11. Era Patel Advance JV
12. Patel Apco JV
13. Patel Soma JV
14. PEL-PPCPL-HCPL JV
15. Patel-UEIPL
16. PEL Gond JV
17. PEL Parbati JV
18. HEL Suthaliya JV
19. NEC PEL JV

Name of Associate Companies	Extent of Holding (in Percentage)
1. Raichur Sholapur Transmission Co. Pvt. Ltd.	33.34%
2. ACP Tollways Pvt. Ltd.	32.00%
3. PAN Realtors Private Limited	37.57%