Press Release

Patel Engineering Limited (PEL)

June 09, 2023

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Fund Based Bank Facilities – CC/ FITL/ WCTL/ Lease Finance	1,311.63	IVR BBB+/ Stable (IVR Triple B Plus with Stable Outlook)	Rating Revised	Simple
Long Term Fund Based Facilities – OCD	388.26	IVR BBB+/ Stable (IVR Triple B Plus with Stable Outlook)	Rating Revised	Simple
Long Term Fund Based Bank Facilities – Proposed	51.80	IVR BBB+/ Stable (IVR Triple B Plus with Stable Outlook)	Rating Revised	Simple
Short Term Non-Fund Based Bank Facilities – LC/BGs	4,699.82	IVR A2 (IVR A Two)	Rating Revised	Simple
Total	**6,451.51**			

Details of Facilities are in Annexure 1

Detailed Rationale

The rating upgrade of Patel Engineering Limited (PEL) considers significant growth in revenue as well as profitability in FY23, the rating upgrade also considers healthy order book position which is about five times of its FY23 revenue indicating a satisfactory medium term revenue visibility.

Further rating continues to derive comfort from experienced promoters & management team, proven project execution capability in big contracts, robust order book position & growth in revenue and Improved capital structure. However, these rating strengths remain constrained by working capital intensive operations, volatile input prices and highly fragmented & competitive nature of the construction sector with significant price war.

Key Rating Sensitivities:

Upward Factors

- Significant growth in scale of operations with improvement in profitability on a sustained basis.
- Improvement in debt protection parameters and liquidity position of the company

- Timely recovery of receivables which are stuck in arbitration.

Downward Factors

- Sharp changes in leverage.
- Decline in profitability and elongation in operating cycle.
- Delay in order execution, which may adversely impact the financial risk profile.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced Promoters & Management Team

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 third 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.

Robust order book position & growth in revenue

There has been a significant improvement in the performance of the Company in terms of growth in revenue. The Company posted revenue growth of ~25% to Rs.3,961.40 crore in FY23 from Rs.3,027.79 crore in FY22. Improvement in revenue is backed by increased orders coupled with execution. PEL’s order book stood at around Rs.20,000 crore as on March 2023 (~5 times of the revenues in FY2023), which provides adequate revenue visibility in the near to medium term.

Improved capital structure

The capital structure of the company has improved marked by adjusted overall gearing ratio of 0.75x as on March 31, 2023 from 1.01x as on March 31, 2022. The total debt to EBITDA improved substantially from 11.36x as on 31st March 2021 to 2.70x as on 31st March, 2023. The interest coverage ratio improved to 2.00x in FY23 as against 1.20x in FY22. However, TOL/ATNW remained high at 2.57x as on March 31, 2023 due to the working capital intensive nature of the business.

Key Rating Weaknesses

Working capital intensive operations

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 FY23 was 74 days as compared to that of 93 days in FY22. However, the major amount of receivables are stuck in arbitration or under claims pending with the client.

The average inventory days stood at 331 days in FY23 as compared to 397 days in FY22. 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 237 days in FY23 as compared to that of 357 days in FY22.

Volatile input prices

Major raw materials used in construction activities are steel and cement which are usually sourced from large players at proximate distances. Historically, the cost of these raw materials and steel products have been volatile in nature and hence, profitability margins of the company are susceptible to fluctuation in raw material prices and/or finished products. However, the company has been able to shake off the effect of volatility to a certain extent with the help of inherent cost escalation clause added into the contracts.

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 as the same can dent the margins. However PEL is one of the established player in construction sector and has requisite pre-qualifications for bidding tenders.

Analytical Approach: Standalone Approach

Applicable Criteria:

Rating Methodology for Infrastructure Companies
Financial Ratios & Interpretation (Non- Financial Sector)
Criteria on Rating Outlook

Liquidity – Adequate

PEL's liquidity is adequate marked by moderate cash accruals to its repayment obligations albeit constrained by working capital intensive nature and modest current ratio. PEL generated cash accruals of Rs.209.12 Crore as against repayment obligation of Rs.191.10 Crore during as on March 31, 2023. Its working capital credit limits were utilized at about ~86.72 per cent during the last 12 months period ended March, 2023. The current ratio is stood modest at 1.26 times as on March 31, 2023.

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 (Standalone):

INR in Crore

For the year ended/ As on*	31-03-2022 (Audited)	31-03-2023 (Audited)
Total Operating Income	3,027.79	3,961.40
EBITDA	381.64	570.59
PAT	52.51	155.56
Total Debt	1,990.71	1,542.18
Tangible Networth	1,850.62	2,055.11
EBITDA Margin (%)	12.60	14.40
PAT Margin (%)	1.66	3.93
Overall Gearing Ratio (x)	1.01	0.75

** Classification as per Infomerics' standards*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21 (Nov 12, 2020)
1.	Fund Based Bank Facilities – CC/ FITL/ WCTL/ Lease Finance	Long Term	1,311.63	IVR BBB+/ Stable	- IVR BBB/ Stable (Sep 07, 2022) - IVR BBB-/ INC (Aug 26, 2022)	- IVR BBB-; CWDI (Aug 27, 2021) - IVR BB+; CWDI(April. 19, 2021)	IVR BBB; CWDI
2.	- Fund Based Facilities – OCD	Long Term	388.26	IVR BBB+/ Stable	- IVR BBB/ Stable (Sep 07, 2022)	- IVR BBB-; CWDI	IVR BBB; CWDI

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					- IVR BBB-/ INC (Aug 26, 2022)	(Aug 27, 2021) - IVR BB+; CWDI(April. 19, 2021)	
3.	Fund Based Bank Facilities – Proposed	Long Term	51.80	IVR BBB+/ Stable	- IVR BBB/ Stable (Sep 07, 2022) - IVR BBB-/ INC (Aug 26, 2022)	- IVR BBB-; CWDI (Aug 27, 2021) - IVR BB+; CWDI (April 19, 2021)	IVR BBB; CWDI
4.	Non-Fund Based Bank Facilities – LC/BGs	Short Term	4,699.82	IVR A2	- IVR A3+ (Sep 07, 2022) - IVR A3/ INC (Aug 26, 2022)	- IVR A3/ CWDI (Aug 27, 2021) - IVR A4+; CWDI (April. 19, 2021)	IVR A3+; CWDI

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About Infomerics:

Infomerics Valuation and Rating Private Limited (Infomerics) was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

For more information visit www.infomerics.com

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Fund Based Bank Facilities – CC/ FITL/ WCTL/ Lease Finance	-	-	-	1,311.63	IVR BBB+/ Stable
Fund Based Facilities – OCD	-	-	-	388.26	IVR BBB+/ Stable

Fund Based Bank Facilities – Proposed	-	-	-	51.80	IVR BBB+/ Stable
Non-Fund Based Bank Facilities – LC/BGs	-	-	-	4,699.82	IVR A2

Annexure 2: List of companies considered for consolidated analysis: Not Applicable.

Annexure 3: Facility wise lender details
https://www.infomerics.com/admin/prfiles/len-pel-jun23.pdf

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

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.