



Press Release

Patel Engineering Limited (PEL)

June 07, 2024

Ratings

Instrument Facility /	Amount (Rs. crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	1,226.00 (Reduced from 1,311.63)	IVR A-/Stable (IVR A Minus with Stable Outlook)	IVR BBB+/Stable (IVR Triple B Plus with Stable Outlook)	Upgraded	Simple
Optionally Convertible Debentures	303.07 (Reduced from 388.26)	IVR A-/Stable (IVR A Minus with Stable Outlook)	IVR BBB+/Stable (IVR Triple B Plus with Stable Outlook)	Upgraded	Complex
Optionally Convertibles Debentures (ISIN INE244B07193)	-	Withdrawn	IVR BBB+/Stable (IVR Triple B Plus with Stable Outlook)	Withdrawn	Complex
Proposed Long Term Bank Facilities	48.57 (Reduced from 51.80)	IVR A-/Stable (IVR A Minus with Stable Outlook)	IVR BBB+/Stable (IVR Triple B Plus with Stable Outlook)	Upgraded	Simple
Short Term Bank Facilities	4,337.09 (Reduced from 4,699.82)	IVR A2+ (IVR A Two Plus)	IVR A2 (IVR A Two)	Upgraded	Simple
Proposed Short Term Bank Facilities	536.78	IVR A2+ (IVR A Two Plus)	-	Assigned	Simple
Total	6451.51 (Rupees Six thousand four hundred fifty-one crore and fifty-one lakh only)				

Details of Facilities are in Annexure 1

Detailed Rationale

Infomerics Ratings has upgraded the ratings assigned to the bank facilities & Optionally Convertible Debentures (OCDs) of Patel Engineering Limited due to continued increase in scale of operations along with stable operating margins in FY24 (refers to period April 1st 2023 to March 31, 2024) improving debt protection metrics due to improved profitability and



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improved liquidity due to funds raised from Qualified Institutional Buyers (QIB) in April 2024 and realisation of stuck receivables. The ratings continue to factor in the established market position, experienced promoters & management team and robust order book position providing revenue visibility. However, the rating strengths are tempered by working capital intensive operations, volatile input prices and highly fragmented & competitive nature of the construction sector with significant price war.

Infomerics has withdrawn the ratings assigned to the OCD having ISIN INE244B07193 at the request of the company as it has been fully redeemed. The rating is withdrawn in accordance with Infomerics' 'Policy on Withdrawal of Ratings'.

Key Rating Sensitivities:

Upward Factors

- Significant growth in scale of operations along with improvement in profitability on a sustained basis.
- Timely realization of arbitration awards and monetization of non-core assets.
- Efficient working capital management, leading to a sustained improvement in the liquidity position of the company and debt protection metrics.

Downward Factors

- Decline in scale of operations and profitability impacting the liquidity position and debt protection metrics of the company.
- Sharp changes in leverage impacting the debt protection metrics.
- Stretch in working capital cycle impacting the liquidity of the company.
- Large debt funded project where PEL is the sponsor and developer.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Established market position, experienced promoters and management team.

PEL has seven decades of track record and has executed projects, across all sectors of infrastructure from dams, tunnels, micro-tunnels, hydroelectric projects, irrigation projects, highways, roads, bridges, railways, refineries to real estates and townships in India as well



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as overseas. So far, it has completed over 300 projects, which include works related to the construction of around 15,000 MW of hydro projects, 87 dams, 300km of tunnels, over 1,200kms of roads, irrigation works of over 0.55 million acres of land.

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 of qualified and experienced professionals.

Robust order book position providing revenue visibility

PEL's order book stood at Rs.18,663.04 crore as on March 31, 2024 (4.23 times of the revenues in FY24), which provides adequate revenue visibility in the near to medium term. The order book is well diversified in various sectors with ~62% orders from the hydroelectric segment, ~21% from the irrigation projects, ~11% from tunnel projects and the rest ~6% from the roads and other infrastructure. On account of its established presence in the industry, PEL has been able to secure repeat orders from key customers like Northeastern Electric Power Corporation Limited (NEEPCO), National Thermal Power Corporation Limited (NTPC), National Hydro Power Corporation (NHPC), National Highway Authority of India (NHAI), Satluj Jai Vidyut Nigam Ltd (SJVN) and IRCON among others.

Increase in scale of operations with stable operating margins

The revenues of the company witnessed a healthy growth of ~16% over FY23 on account of strong execution of orders and healthy order book position of the company. The revenue booked by PEL stood at Rs. 4412.04 crore in FY24 as against Rs. 3817.13 crore in FY23. The EBITDA margins were at similar levels at 14.97% in FY24 (14.22% in FY23). The PAT margin has improved from 3.93% in FY23 to 6.32% in FY24. Infomerics estimates PEL's revenue to grow ~10% y-o-y in FY25-FY27, backed by robust order book, liquidity buffer to support operations and a steady pace of order execution.

Improving capital structure and debt protection metrics

As on March 31,2024 company had a total debt of Rs. 1732.16 crore comprising of 0.01% OCDs of Rs.348.93 crore, Rs.267.19 crore equipment loans from financial institutions, working capital borrowings amounting to Rs.1053.89 crore and Rs.62.15 crore as an inter



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corporate deposit from related party. Adjusted tangible net worth of the company improved and was strong at Rs.2851.81 crore as on March 31, 2024, against Rs.2444.08 crore as on March 31, 2023, on account of accretion of profit. The adjusted overall gearing ratio stood comfortable at 0.61x as on March 31,2024 and 0.63x as on March 31,2023. TOL/ATNW stood at 1.94x as on March 31,2024 as against 2.16x as on March 31,2023, due to reliance on a combination of external debt, mobilisation advances and trade creditors. The leverage ratios remain at similar level after loading the corporate guarantee of ~Rs.40 crore. The debt protection metrics have improved with interest coverage ratio at 1.85x in FY24 (PY: 1.36x) and DSCR at 1.54x in FY24 (PY: 1.03x). Total debt to EBITDA stood at similar level at 2.62x in FY24 (PY:2.84x). The company has raised Rs. 400.00 crore from QIBs in April 2024 thus improving its network. The company has used part of these fund towards prepayment of OCD dues amounting to Rs.66.84 crore in May 2024, which were originally due on August 08, 2024, amounting to Rs.70.93 crore. The balance proceeds from QIB will be used in the business operations. The capital structure of the company is expected to improve in FY25.

Realisation of receivables and monetization of non-core assets

During FY24 company realised Rs.89.00 crore under 'Vivad se Vishwas' scheme. In May 2024, the company has further realized Rs.162.87 crore from its Mauritius project which was stuck for many years. The company has around~Rs.1200 crore of awards which are under different stages of arbitration. The company has been monetising non-core assets in the past. In FY23 the company monetized Rs.67.00 crore worth of assets. It further plans to monetize assets worth ~Rs.224 crore in the next 2-3 years to reduce the debt level and to support the working capital requirement of the company.

Key Rating Weaknesses

Working capital intensive operations

PEL's operations continue to be working capital intensive marked by Gross Current Asset days (GCA) of 479 days in FY24 and 483 days for FY23. The inventory days are high at 335 days for FY24 and 345 days for FY23 due to unbilled revenue and arbitration claims pending awards being classified in work-in-progress and stock of land. The receivable days improved to 62 days in FY24 as against 76 days in FY23. Receivables include awards in favour of the company however, stuck in arbitration. The company has witnessed working capital stretch in the past due to delayed payments from clients, which in turn had slowed down project



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execution in certain cases. However, the same has seen an improvement in last 2 years. The working capital requirements are funded through a mix of external debt, mobilisation advances and trade creditors. The working capital intensity is reflected in high average utilization of fund-based bank limits at ~83 percent for the eleven months ended February 2024; whereas non-fund-based bank limits remain utilized at ~75 percent over the same period.

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 industry with significant price war

The construction sector is highly fragmented with presence of many mid to large sized players. The company being an EPC contractor faces significant pricing competition. While the competition is perceived to be healthy, significant price cut by few players during the bidding process is a matter of concern as the same can impact margins. However, PEL is one of the established players in the sector and has requisite pre-qualifications for bidding tenders.

Further, PEL is also exposed to regulatory risks, which can affect its ability to complete projects in a timely manner and to secure new projects from time to time. PEL had in the past experienced delays in commencement as well as execution of projects on account of delays in regulatory and environmental approvals. This may, in turn, result in significant cost escalations leading to lower than expected operating profitability.

Analytical Approach: Standalone

Applicable Criteria:

[Rating Methodology-Infrastructure Companies](#)

[Financial Ratios & Interpretation \(Non-Financial Sector\).](#)

[Criteria for assigning Rating outlook.](#)

[Policy on Default Recognition](#)



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[Complexity Level of Rated Instruments/Facilities](#)

[Policy on withdrawal of ratings](#)

Liquidity –Adequate

PEL's liquidity is adequate marked by adequate cash accruals in the projected period FY25-27 vis-à-vis debt repayment of Rs.177.39 in FY25, Rs.180.43 crore in FY26 and Rs.140.47 crore in FY27. The company has raised Rs.400 crore from QIBs in April'2024 which has added to liquidity and was partly used to prepay the OCD dues of Rs.66.84 crore in May 2024, which were originally due on August 08, 2024. During FY24 company realised receivables of Rs.89.00 crore under 'Vivad se Vishwas' scheme and in May 2024 the company has further realized Rs.162.87 crore from its Mauritius project which was stuck for many years. Its working capital credit limits were utilized at ~83 % during the last 11 months period ended February 2024. The current ratio stood modest at 1.51x as on March 31, 2024. As on May 20,2024 company had a cash and bank balance of Rs.191 crore and unutilised QIB proceeds of Rs.163.31 crore which will be used for repayment of debt and growth operations of the company.

About the Company

Incorporated in 1949, Patel Engineering Ltd (PEL) is engaged in the civil engineering and construction segment majorly for government entities. Over the years, it has executed various types of projects from dams, tunnels, micro-tunnels, hydroelectric projects, irrigation projects, highways, roads, bridges, railways, refineries to real estates and townships.

Financials (Standalone):

For the year ended/ As on*	(Rs. crore)	
	31-03-2023	31-03-2024
	Audited	Audited
Total Operating Income	3817.13	4412.04
EBITDA	542.88	660.49
PAT	155.56	285.60
Total Debt	1542.18	1732.16



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Adjusted Tangible Net Worth	2444.08	2851.81
EBITDA Margin (%)	14.22	14.97
PAT Margin (%)	3.93	6.32
Adjusted Overall Gearing Ratio (x)	0.63	0.61
Interest Coverage (x)	1.36	1.85

* As per Infomerics Standard

Status of non-cooperation with previous CRA: Not Applicable

Any other information:

Rating History for last three years:

Sr. No.	Name of Instrument/ Facilities	Current Ratings (Year 2024-25)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2023-24	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22
1.	Fund Bank Facilities- Cash Credit	Long term	1216.75	IVR A- /Stable	(June 09,2023) IVR BBB+/ Stable	(Sep 07, 2022) IVR BBB/ Stable (Aug 26, 2022) IVR BBB-/ INC	(Aug 27, 2021) IVR BBB-; CWDI (April 19, 2021) IVR BB+; CWDI
2.	Fund Bank Facilities- Lease Financing	Long term	9.25	IVR A- /Stable	(June 09,2023) IVR BBB+/ Stable	(Sep 07, 2022) IVR BBB/ Stable (Aug 26, 2022) IVR BBB-/ INC	(Aug 27, 2021) IVR BBB-; CWDI (April 19, 2021) IVR BB+; CWDI
3.	Optionally Convertibles Debentures	Long term	303.07	IVR A- /Stable	(June 09,2023) IVR BBB+/ Stable	(Sep 07, 2022) IVR BBB/ Stable (Aug 26, 2022) IVR BBB-/ INC	(Aug 27, 2021) IVR BBB-; CWDI (April 19, 2021) IVR BB+; CWDI
4.	Optionally Convertibles Debentures	-	-	Withdrawn	(June 09,2023) IVR BBB+/ Stable	(Sep 07, 2022) IVR BBB/ Stable (Aug 26, 2022) IVR BBB-/ INC	(Aug 27, 2021) IVR BBB-; CWDI (April 19, 2021) IVR BB+; CWDI
5.	Proposed Long term Bank Facilities- Lease Financing	Long term	48.57	IVR A- /Stable	(June 09,2023) IVR BBB+/ Stable	(Sep 07, 2022) IVR BBB/ Stable (Aug 26, 2022) IVR BBB-/ INC	(Aug 27, 2021) IVR BBB-; CWDI (April 19, 2021) IVR BB+; CWDI



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Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2024-25)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2023-24	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22
7.	Fund Based Bank Facilities- Project Specific Term Loan	Short Term	233.00	IVR A2+	(June 09, 2023) IVR A2	(Sep 07, 2022) IVR A3+ (Aug 26, 2022) IVR A3/INC	(Aug 27, 2021) IVR A3/ CWDI (April 19, 2021) IVR A4+; CWDI
8.	Non-Fund Based Bank Facilities- LC/BG	Short Term	4104.09	IVR A2+	(June 09, 2023) IVR A2	(Sep 07, 2022) IVR A3+ (Aug 26, 2022) IVR A3/INC	(Aug 27, 2021) IVR A3/ CWDI (April 19, 2021) IVR A4+; CWDI
9.	Proposed Short term Bank Facilities- LC/BG	Short Term	536.78	IVR A2+	-	-	-

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit



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ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

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

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

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Annexure 1: Details of Facilities

Name of Facility	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Optionally Convertible Debentures	INE244B07151	November 24,2017	0.01%	August 08,2027	63.16	IVR A-/ Stable
Optionally Convertible Debentures	INE244B07169	November 24,2017	0.01%	August 08,2027	164.69	IVR A-/ Stable
Optionally Convertible Debentures	INE244B07219	December 31,2018	0.01%	August 08,2027	4.39	IVR A-/ Stable
Optionally Convertible Debentures	INE244B07227	December 31,2018	0.01%	August 08,2027	70.83	IVR A-/ Stable
Optionally Convertible Debentures	INE244B07193	November 24,2017	0.01%	August 08,2027	-	Withdrawn
Long Term Fund Based Bank	-	-	-	-	1216.75	IVR A-/ Stable



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Name of Facility	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Facilities-Cash Credit						
Long Term Fund Based Bank Facilities-Lease Financing	-	-	-	-	9.25	IVR A-/ Stable
Long Term Fund Based Bank Facilities-Proposed Lease Financing	-	-	-	-	48.57	IVR A-/ Stable
Short Term Fund Based Bank Facilities-Project Specific Term Loan	-	-	-	-	233.00	IVR A2+
Short Term Non-Fund Based Bank Facilities- LC/BG	-	-	-	-	4104.09	IVR A2+
Short Term Non-Fund Based Bank Facilities- Proposed LC/BG	-	-	-	-	536.78	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/lender-PEL-7jun24.pdf>

Annexure 4: Detailed explanation of covenants of the rated instrument:

Name of the Instrument		Detailed Explanation
Optionally Convertible Debentures		Secured, rated, redeemable optionally convertible debentures of the face value of Rs. 1000 (Rupees One Thousand only) each, issued by the Company in 10 (ten) Tranches (each in the form of separately transferable redeemable principal parts) upon conversion of the Debt.
	Financial Covenant	
	-	-
	Non-financial Covenant	
i	Tenure	The tenor of the Debentures shall be 10 years from the Cut-Off Date (August 08,2017).
ii	Pledge	Pledge of 49% holding of the company in Hitodi Infrastructure Pvt. Ltd. (associate company of PEL)
iii	Mandatory redemption	a) Any cash inflow in excess of 125% of the projected



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Name of the Instrument		Detailed Explanation
		<p>EBITDA in any financial Year shall be utilized by the company to prepay the secured obligations (without payment of any early redemption costs/prepayment penalty).</p> <p>b) Any cash received towards principal amount of the financial bank guarantee issued under the Award BG Facilities can be utilized towards the early redemption of the Debentures of such Debenture Holder which has issued the said financial bank guarantee in capacity of the working capital facility lender to the Part A Debt.</p>
iv	Interest payment	<p>Interest shall apply and accrue on the Debentures at the rate of 0.01% per annum starting from the Cut-Off Date. On each Redemption Date, the Company shall pay the Debenture Holders the unpaid interest on the Debentures, accrued up to such Redemption Date.</p> <p>Interest and all other charges shall accrue from day to day and shall be computed on the basis of a 365 days where the year is a leap year, 366 days.</p>
v	Conversion into NCDs	<p>If the Debentures are not converted into the Conversion Shares (in accordance with the terms of Deed) during the Conversion Period, then the Company shall ensure that, if so instructed by the Debenture Trustee, the outstanding portion of the Secured Obligations is converted into debt availed / to be availed in the form of non-convertible debentures ("NCDs") no later than 7 (seven) days prior to the expiry of the Conversion Period.</p>
vi	Asset cover	<p>The Company shall also, at all times during the tenor of the Debentures, maintain a minimum of 100% asset cover in respect of the outstanding Debentures as required under the Act.</p>
vii	Escrow Account	<p>The Company shall deposit in the Escrow Account all the proceeds received from any of the projects being undertaken by the Company.</p>
viii	Information undertakings	<p>The Company shall supply to the Debenture Trustee certified true copies of the audited balance sheet and the profit and loss statement of the Company for every Financial Year by no later than 90 (ninety) days from the end of such Financial Year certified true copies of the unaudited quarterly/half yearly financial results of the Company, by no later than 60 (sixty) days from the end of such quarterly / half yearly period, if required under the Applicable Law; all documents filed with any Governmental Authority in connection with the Debenture Documents any change in management or composition of the board of directors of the Company.</p>



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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.

