



## Press Release

### Patel Engineering Limited (PEL)

**September 07, 2022**

#### **Ratings**

<b>Facilities</b>	<b>Amount (Rs. crore)</b>	<b>Current Ratings</b>	<b>Rating Action</b>	<b><u>Complexity Indicator</u></b>
Long term fund-based facility– Cash Credit	1,256.80  (Enhanced from 1,072.55)	IVR BBB/ Stable	Rating Revised; Removed from ISSUER NOT COOPERATING	Simple
Long term fund-based facility– FITL	125.50  (Enhanced from 21.09)	IVR BBB/ Stable	Rating Revised; Removed from ISSUER NOT COOPERATING	Simple
Long term fund-based facility– OCD	416.79  (Reduced from 482.32)	IVR BBB/ Stable	Rating Revised; Removed from ISSUER NOT COOPERATING	Complex
Long term fund-based facility– WCTL	27.27  (Reduced from 148.20)	IVR BBB/ Stable	Rating Revised; Removed from ISSUER NOT COOPERATING	Simple
Short term non-fund based facility– LC/BGs	4,478.15  (Enhanced from 4250.43)	IVR A3+	Rating Revised; Removed from ISSUER NOT COOPERATING	Simple
Long term fund-based facility– Proposed	147.00	IVR BBB/ Stable	Rating Revised; Removed from ISSUER NOT COOPERATING	Simple
<b>Total</b>	<b>6,451.51</b>			

**Details of facilities are in Annexure 1**

#### **Detailed Rationale**

The rating upgrade of Patel Engineering Limited (PEL) considers robust revenue growth at ~70% in FY2022 compared with previous year on the back of better execution of orders in hand. The rating upgrade also considers the significant improvement in profitability of the company.



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Further rating continues to derive comfort from established track record of group and experienced promoters & management team, proven project execution capability in big contracts, robust order book position & growth in revenue and moderate capital structure. However, these rating strengths remain constrained by working capital intensive operations on account of substantial amount of receivables are stuck in arbitration, volatile input prices and highly fragmented & competitive nature of the construction sector with significant price war.

### **Key Rating Sensitivities:**

#### **Upward Factor:**

- 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 Factor:**

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

### **Detailed Description of Key Rating Drivers**

#### **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**



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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 ~70% to Rs.3,027.79 crore in FY22 from Rs.1,719.12 crore in FY21. Improvement in revenue is backed by increased orders coupled with execution. PEL's order book stood at around Rs.17,842 crore as on June 2022 (~5.90 times of the revenues in FY2022), which provides adequate revenue visibility in the near to medium term.

### **Moderate capital structure**

The company has a moderate capital structure marked by adjusted overall gearing ratio of 1.01x as on March 31, 2022. The total debt to EBITDA improved substantially from 11.36x as on 31st March 2021 to 4.35x as on 31st March, 2022. The interest coverage ratio improved to 1.44x in FY22 as against 0.46x in FY21. However, TOL/ATNW remained high at 2.89x as on March 31, 2022 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 FY22 was 93 days as compared to that of 137 days in FY21. However, the major amount of receivables are stuck in arbitration or under claims pending with the client.

The average inventory days stood at 408 days in FY22 as compared to 668 days in FY21. 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 364 days in FY22



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as compared to that of 546 days in FY21. The average working capital utilisation in the last 12 months ended June 2022, also stood moderate at about ~89%.

### **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 assigning 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.172.72 Crore as against repayment obligation of Rs.35.70 Crore during



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as on March 31, 2022. The cash accruals of the PEL are estimated to remain around Rs. 200-365 Cr during 2023-25 while their repayment obligations are estimated to be around Rs.50-190 Crore during the same period. Its working capital credit limits were utilised at about ~89 per cent during the last 12 months period ended June, 2022. The current ratio is stood modest at 1.30 times as on March 31, 2022.

### **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)**

For the year ended* As on	INR in Crore	
	31-03-2021	31-03-2022
	Audited	Audited
Total Operating Income	1,719.12	3,027.79
EBITDA	168.84	458.00
PAT	-138.40	52.51
Total Debt	1,918.74	1,990.71
Adjusted Tangible Networth	1,724.31	1,850.62
EBITDA Margin (%)	9.82	15.13
PAT Margin (%)	-7.43	1.66
Overall Gearing Ratio (x)	1.07	1.01

\* Classification as per Infomerics' standards

**Details of Non-Co-operation with any other CRA: Nil**

**Any other information: N.A.**



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Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2022-23)			Rating History for the past 3 years			
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23 (Aug 26, 2022)	Date(s) & Rating(s) assigned in 2021-22 (April. 19, 2021)	Date(s) & Rating(s) assigned in 2020-21 (Nov 12, 2020)	Date(s) & Rating(s) assigned in 2019-20 (Oct 04, 2019)
1.	Cash Credit	Long Term	1,256.80	IVR BBB/ Stable	IVR BBB-; ISSUER NOT COOPERATING	<ul style="list-style-type: none"> <li>IVR BBB-; CWDI (Date: Aug 27, 2021)</li> <li>IVR BB+; CWDI (Date: April. 19, 2021)</li> </ul>	IVR BBB; Credit Watch With Developing Implications	IVR BBB; Positive
2.	Working Capital Term Loan	Long Term	27.27	IVR BBB/ Stable	IVR BBB-; ISSUER NOT COOPERATING	<ul style="list-style-type: none"> <li>IVR BBB-; CWDI (Date: Aug 27, 2021)</li> <li>IVR BB+; CWDI (Date: April. 19, 2021)</li> </ul>	IVR BBB; Credit Watch With Developing Implications	IVR BBB; Positive
3.	OCD	Long Term	416.79	IVR BBB/ Stable	IVR BBB-; ISSUER NOT COOPERATING	<ul style="list-style-type: none"> <li>IVR BBB-; CWDI (Date: Aug 27, 2021)</li> <li>IVR BB+; CWDI (Date: April. 19, 2021)</li> </ul>	IVR BBB; Credit Watch With Developing Implications	IVR BBB; Positive
4.	Term Loan	Long Term	125.50	IVR BBB/ Stable	IVR BBB-; ISSUER NOT COOPERATING	<ul style="list-style-type: none"> <li>IVR BBB-; CWDI (Date: Aug 27, 2021)</li> <li>IVR BB+; CWDI (Date: April. 19, 2021)</li> </ul>	IVR BBB; Credit Watch With Developing Implications	IVR BBB; Positive
6.	LC/BGs	Short Term	4,478.15	IVR A3+	IVR A3/ ISSUER NOT COOPERATING	<ul style="list-style-type: none"> <li>IVR A3/ CWDI (Date: Aug 27, 2021)</li> <li>IVR A4+; CWDI (Date: April. 19, 2021)</li> </ul>	IVR A3+; Credit Watch With Developing Implications	IVR A3+

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### About Infomerics:

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](http://www.infomerics.com)

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### Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
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Cash Credit	-	-	-	1,256.80	IVR BBB/ Stable
FITL	-	-	March 2024	125.50	IVR BBB/ Stable
OCD	-	-	-	416.79	IVR BBB/ Stable
WCTL	-	-	-	27.27	IVR BBB/ Stable
Proposed	-	-	-	147.00	IVR BBB/ Stable
LC/BGs	-	-	-	4.478.15	IVR A3+

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

**Annexure 3: Facility wise lender details:**

<https://www.infomerics.com/admin/prfiles/Len-Patel-Engineering-sep22.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](http://www.infomerics.com).