



Press Release

Potaliya Enterprises Private Limited (PEPL)

February 29th, 2024

Ratings

Facilities	Amount (Rs. crore)	Ratings	Rating Action	<u>Complexity Indicator</u>
Long Term Bank Facilities	19.50	IVR BBB-/Stable (IVR Triple B Minus with Stable Outlook)	Assigned	Simple
Short Term Bank Facilities	64.50	IVR A3 (IVR A Three)	Assigned	Simple
Total	Rs.84.00 (Rupees Eighty-Four Core Only)			

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of PEPL derive strengths from comfortable order book position, strong revenue growth with improving profitability, comfortable capital structure, long standing association with reputed government authorities and experienced promoters with long track record of operation. The rating is however constrained on account of moderate working capital cycle, tender driven nature of business in highly fragmented & competitive water treatment industry and inherent risk as an EPC contractor.

Key Rating Sensitivities:

Upward Factors

- Steady flow of orders & timely execution of the same leading to sustained improvement in scale of operations and profitability thereby improvement in liquidity position.

Downward Factors

- Delay in execution of orders in hand or non-receipt of new orders reducing its total operating income with decline in operating margin at sustain basis.
- Significant deterioration in working capital cycle.



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List of Key Rating Drivers with Detailed Description

A. Key Rating Strengths

Comfortable order book position

PEPL's total unexecuted order book worth Rs.397.27 crores (2.47x of FY23 revenue), indicating healthy revenue visibility in the medium term. The order book is geographically diversified, with ~40% from AGP City Gas Private Limited across Andhra Pradesh and Karnataka, ~23% from Oil and Natural Gas Corporation in Gujarat, ~14% from Bengal Gas Company Limited in West Bengal and remaining 7% as Indraprastha Gas Limited, Larsen and Toubro Limited, Torrent Gas Pvt Ltd, and Think Gas Ltd, which is operating in Ludhiana and Uttar Pradesh. In certain contracts there is inbuilt price escalation clause which insulate the PEPL from any adverse price movement of raw material prices. PEPL has an established track record of completion of contracts on timely basis.

Strong revenue growth with Improving profitability

PEPL has witnessed significant growth in revenue as the same has increased at CAGR of 40.55% through FY21-FY23 to Rs.160.83 crore in FY23 (FY22: Rs.99.26 crore and FY21: Rs.81.09 crore), this growth was driven by increased in number of orders received and executed. Further, till 9MFY24 PEPL has achieved a total operating income of Rs.135.01 crore. EBITDA margins has improved y-o-y basis and was in the range of 7%-9% through FY22-FY23 due to due to lower operating cost and price variation clause.

Comfortable capital structure

The capital structure marked by overall gearing has remained comfortable at 0.48x in FY23 (PY: 0.85x) due to stable accretion of profits to reserves along with lower utilization of working capital facilities. Further, TOL/TNW has marginally improved and remained moderate at 2.23x in FY23 (PY:2.41x), due to high year end purchases. We expect gearing to improve further from FY24 onwards with expected sustained improvement in profitability and lower debt repayments.

Long standing association with reputed government authorities

PEPL has long standing operational track record of more than a decade which has enabled it to establish and strengthen its relations with customers which majorly includes government



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and reputed clientele i.e. Gail Gas Limited, AGP City Gas Private Limited, Bengal Gas Company Limited, Oil and Natural Gas Corporation, Indraprastha Gas Limited, Larsen and Toubro Limited, Torrent Gas Pvt Ltd, and Think Gas Ltd having sound credit profile.

Experienced promoters

PEPL is promoted by Mr. Suresh Potaliya and Ms. Pushpa Saran. The promoters of the company have an experience of more than a decade in construction industry and are actively engaged in day-to-day operations of the company. The promoters are well assisted by effectively qualified second-tier management in day-to-day operations.

B. Key Rating Weaknesses

Moderate working capital cycle

PEPL's operating cycle stood at 13 days in FY23 (PY: 24 days) due to improvement in receivable days to 86 days in FY23 (PY: 113 days) as PEPL has received timely payments from government entities. Further, receivable days tends to remain higher at the end any financial year as company raised the bills to the various entities at the end of financial year. Creditors days has also decreased to 102 days in FY23 (PY: 153 days).

Tender driven nature of business in highly fragmented & competitive water treatment industry

Execution risks for newly awarded projects in a timely manner will be key to achieving growth in revenues and profits. Business certainty is dependent on the entity's ability to successfully bid for the tenders as entire business is tender based. PEPL faces direct competition from various organized and unorganized players in the market. The water and sewage treatment plant industry in India is highly competitive, marked by the presence of a large number of players. Further, players in civil construction have also started competing for obtaining orders by entering into joint ventures with small players engaged in water treatment industry; thus, increasing competition. The projects in the industry are awarded based on the relevant experience of the bidder, financial capability and most attractive bid price. PEPL competes with some of the large established infrastructure players in this space which increases the competition and affects the margins in the business.



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Inherent risk as an EPC contractor

Economic vulnerability and regulatory risks in developing markets, delay in payments from the Government, project execution risk and fluctuating input costs are the key business risk faced by the entity in the sector.

Analytical Approach: Standalone Approach

Applicable Criteria:

[Criteria on default recognition](#)

[Criteria of assigning rating outlook](#)

[Rating methodology for Infrastructure companies](#)

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

Liquidity: Adequate

PEPL's liquidity is expected to remain adequate given the expected cash accruals in the range of Rs.21.88 crore to Rs.40.27 crore in the period of FY24 to FY26 as against the repayments of Rs.1.92 crore to Rs. 2.83 crore. The free cash and cash equivalents balance stood at Rs.2.37 crore as on March 31, 2023, while average working capital utilisation for the 12 months ended January 2024 remained moderate at 41% (funded) and ~53% (non-funded). Current ratio stood at 1.29x as on March 31, 2023.

About the company

PEPL was initially established as a proprietorship concern in 2012, based in Jaipur. The constitution of the entity was converted into private limited company in March 2023. The company is engaged in executing EPC contracts, providing integrated solutions encompassing design, engineering, procurement, construction and project management services in water projects, such as oil and gas pipelines, water distribution lines, sewerage lines, civil infrastructure and maintenance work.



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Financials (Standalone):

(Rs. crore)

For the year ended / As On*	31-03-2022 (Audited)	31-03-2023 (Audited)
Total Operating Income	99.26	160.83
EBITDA	8.87	14.52
PAT	7.04	11.63
Total Debt	19.98	12.51
Tangible Net worth	23.61	26.26
Ratios		
EBITDA Margin (%)	8.93	9.03
PAT Margin (%)	7.08	7.21
Overall Gearing Ratio (x)	0.85	0.48

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: None

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
1.	Long Term Bank Facilities	Long Term	19.50	IVR BBB-/Stable	-	-	-
2.	Short Term Bank Facilities	Short Term	64.50	IVR A3	-	-	-

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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 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.

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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
Long Term Bank Facilities – Overdraft	--	--	--	4.00	IVR BBB-/Stable
Long Term Bank Facilities – Overdraft	--	--	--	5.00	IVR BBB-/Stable
Long Term Bank Facilities – Overdraft	--	--	--	0.50	IVR BBB-/Stable



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Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. crore)	Rating Assigned/ Outlook
Long Term Bank Facilities – Overdraft	--	--	--	10.00	IVR BBB-/Stable
Short Term Bank Facilities – Bank Guarantee	--	--	--	26.00	IVR A3
Short Term Bank Facilities – Bank Guarantee	--	--	--	10.00	IVR A3
Short Term Bank Facilities – Bank Guarantee	--	--	--	14.50	IVR A3
Short Term Bank Facilities – Bank Guarantee	--	--	--	14.00	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-Potaliya-feb24.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.