



## Press Release

**Patel Engineering Limited (PEL)**

**August 27, 2021**

**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 Minus; Credit watch with developing implication)	IVR BB+/ Credit Watch with Developing Implications  (IVR Double B Plus; Credit watch with developing implications)	Rating Revised
Long Term Fund Based Facility – Working Capital Term Loan	148.20	IVR BBB-/ Credit Watch with Developing Implications  (IVR Triple B Minus; Credit watch with developing implication)	IVR BB+/ Credit Watch with Developing Implications  (IVR Double B Plus; Credit watch with developing implications)	Rating Revised
Long Term Fund Based Facility – OCD	482.32	IVR BBB-/ Credit Watch with Developing Implications  (IVR Triple B Minus; Credit watch with developing implication)	IVR BB+/ Credit Watch with Developing Implications  (IVR Double B Plus; Credit watch with developing implications)	Rating Revised
Long Term Fund Based Facility – Term Loan	21.09	IVR BBB-/ Credit Watch with Developing Implications  (IVR Triple B Minus; Credit watch with developing implication)	IVR BB+/ Credit Watch with Developing Implications  (IVR Double B Plus; Credit watch with developing implications)	Rating Revised
Short Term Fund Based Facility – STL	46.10	IVR A3 / Credit Watch with Developing Implications  (IVR A Three under Credit Watch with Developing Implications)	IVR A4+/ Credit Watch with Developing Implications  (IVR A Four Plus under Credit Watch with Developing Implications)	Rating Revised
Short Term Non Fund Based	4250.43	IVR A3 / Credit Watch with Developing Implications	IVR A4+/ Credit Watch with Developing Implications	Rating Revised



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Facilities – LCs /BGs		(IVR A Three under Credit Watch with Developing Implications)	(IVR A Four Plus under Credit Watch with Developing Implications)	
<b>Total</b>	<b>6020.70</b>  <b>(Six Thousand Twenty Crore and Seventy Lakhs)</b>			

### Details of Facilities are in Annexure I

#### Detailed Rationale

Patel Engineering Limited (PEL's) rating has been revised on account of company's Successful completion of One Time Resolution (OTR) under RBI's Resolution Framework for COVID-19 related stress and same has been approved by all the lenders as of June 2021. The rating has been placed under watch to monitor the liquidity and growth in operations of the company.

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, Moderate capital structure and Successful implementation of One Time Resolution (OTR) under RBI's Resolution Framework for COVID-19 related stress. However, these strengths are, partially offset by Decline in Total Operating Income and Profitability, 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. The company has availed a loan moratorium from its bankers under the Covid-19 relief package announced by RBI.

#### Key Rating Sensitivities

Upward rating factor(s) –



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- Continued reduction in debt by realisation of actionable claims and realisation of non-core assets would call for a positive rating action.
- Achievement or over-achievement of the projected total operating income resulting in substantial increase in profitability with subsequent improvement in the company's debt protection parameters 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 3<sup>rd</sup> 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



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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 Neepco, Ircon Limited, SJVN Limited, Irrigation Departments of various state governments, NTPC Ltd, NHPC Ltd, NHAI, and MCGM, 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 had entered joint ventures with various reputed players like KNR Constructions, Age Construction and Trading Inc, amongst various others.

### **Healthy and Growing order book reflecting satisfactory medium-term revenue visibility**

The company has a strong and growing order book position of INR 14934.32 crore as on December 31, 2020 (INR 12945.51 crore as on June 30, 2020) with orders across various contracts which is about 6.40 times of its FY20 revenue. These orders are expected to be completed within next four-six years (subject to various factors such as approvals, geological issues, etc.), indicating a satisfactory medium term revenue visibility.

### **Moderate capital structure**

The company's capital structure has been moderate. The overall gearing on Net Adjusted Tangible Net worth was 0.83x as on March 31, 2021. The long-term debt to EBITDA improved substantially from 6.55x as on 31st March 2020 to that of 3.32x as on 31st March, 2021. The long term debt to equity ratio of the company was 0.24x as on 31st March, 2021. The TOL/Book TNW was 2.17x as on the account closing day of FY21.

### **Successful implementation of One Time Resolution (OTR) under RBI's Resolution Framework for COVID-19 related stress**

Patel Engineering Limited had applied for One-time Resolution (OTR) of its borrowings under the RBI's Resolution Framework for COVID-19 related stress. The OTR resolution plan needed to be implemented within 180 days from the date of invocation of December 14, 2020 i.e. within June 12, 2021. The Consortium meeting held on June 24, 2021 noted that post vetting of the resolution plan by the Expert Committee constituted by RBI, the joint



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documentation for the OTR plan including creation and perfection of security has been executed on May 28, 2021 and a legal enforceability opinion has been obtained from Trilegal (lenders' legal counsel). Thereafter, the resolution plan has been implemented by all the lenders who have signed the Inter-creditor Agreement ("ICA") on or before June 12, 2021, and that the OTR resolution plan has been implemented in their respective internal systems on or before June 12, 2021. Post implementation there are no overdues in the account in their respective systems and the account has been classified as 'Standard'.

### **Key Rating Weaknesses**

#### **Decline in Total Operating Income and Profitability**

The TOI of the company had improved from INR 2038.90 crore in FY18 to INR 2333.06 crore in FY20 owing to sustained growth of business. However, it fell in FY21 to INR 1719.12 crore due to the COVID-19 pandemic induced lockdown and its repercussions on the business. The EBITDA Margin of the firm has improved to 9.82% in FY21 as compared to 4.34% in FY20, mainly due to reduction of fixed and redundant costs, leading to higher profitability. However, the PAT Margin has reduced from 1.39% in FY20 to -7.43% in FY21. This is majorly due to reduction of non-operating income such as interest income in FY21. However, it is unlikely that the same slump trajectory would be seen going ahead, owing to its sturdy business recovery post OTR, strong order book and reduced liquidity pressure in the near term.

#### **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, non-fund-based limits and long credit period provided by its input suppliers/contractors based on its long and established presence. The collection period, for FY21 was 69 days as compared to that of FY20 of 42 days. The average inventory days stood at 668 days in FY21 as compared to 466 days in FY20. This is mainly because of the COVID-19 pandemic and its induced lockdowns which temporarily reduced the pace of ongoing projects. This resulted in an operating cycle of 451 days in FY21 as compared to that of 329 days in FY20.

#### **High Amount of Contingent Liabilities**



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The company had total outstanding contingent liability of INR 2637.90 crore (including bank guarantee of INR 1915.43 crore and corporate guarantee of INR 722.47 crore) as in March 31, 2021, as against that of INR 2401.08 crore as on March 31, 2020 (and INR 2555.54 crore as on closing of FY19). The guarantees majorly include counter indemnities given to banks in respect of secured guarantees in favour of group entities, various income tax demands, service tax demands, performance guarantees, security and retention deposits amongst others.

### **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. However, in the last year, the industry has seen a reduction in the number of players and bidders, majorly due to a lack of NFB support. Hence it is yet to be seen how the company positions itself in the future.

**Analytical Approach:** Standalone Approach

### **Applicable Criteria**

Rating Methodology for Infrastructure Companies

Financial Ratios & Interpretation (Non-Financial Sector)

### **Liquidity – Stretched**

The liquidity is considered to be Stretched owing to the high working capital intensive nature of operations of the company coupled with negative gross cash accruals of Rs. 62.17 crores





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as on FY21 (Provisional) on account of net losses due to the ongoing COVID-19 pandemic and its lockdowns. The current ratio of the company stood at 1.38x as on closing of FY21 (Provisional). The company's liquidity is expected to improve in the near to medium term owing to consistent execution of orders and realisation of profits post the successful implementation of the OTR. Moreover, the interest obligations till March 2020 has been converted to FITL and principal debt servicing obligations have been shifted by 2 years, paving way for major liquidity stress relief within the company in the foreseeable short run.

### 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 Crore)

For the year ended* / As on	31-03-2020	31-03-2021
	(Audited)	(Audited)
Total Operating Income	2333.06	1719.12
EBITDA	101.22	168.85
PAT	37.17	-138.39
Total Debt	1903.75	1909.1
Tangible Net worth (Book Value)	2459.84	2299.71
EBIDTA Margin (%)	4.34	9.82
PAT Margin (%)	1.39	-7.43
Overall Gearing Ratio (x)	0.98	0.83

\* Classification as per Infomerics' standards

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

Any other information: N.A.



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### Rating History for last three years:

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2021-22)			Rating History for the past 3 years		
		Type	Amount outstanding (INR crore)	Rating	Date(s) & Rating(s) assigned in 2021-22 (19.04.2021)	Date(s) & Rating(s) assigned in 2020-21 (12.11.2020)	Date(s) & Rating(s) assigned in 2019-20 (04.10.19)
1.	Long Term Fund Based Facility - Cash Credit	Long Term	1072.55	IVR BBB-/ Credit Watch with Developing Implications	IVR BB+/ Credit Watch with Developing Implications	IVR BBB/ Credit Watch with Developing Implication	IVR BBB/ Positive outlook
2.	Long Term Fund Based Facility – Working Capital Term Loan	Long Term	148.20	IVR BBB-/ Credit Watch with Developing Implications	IVR BB+/ Credit Watch with Developing Implications	IVR BBB/ Credit Watch with Developing Implication	IVR BBB/ Positive outlook
3.	Long Term Fund Based Facility - OCD	Long Term	482.32	IVR BBB-/ Credit Watch with Developing Implications	IVR BB+/ Credit Watch with Developing Implications	IVR BBB/ Credit Watch with Developing Implication	IVR BBB/ Positive outlook
4.	Long Term Fund Based Facility – Term Loan (COVID-19 Sanction)	Long Term	21.09	IVR BBB-/ Credit Watch with Developing Implications	IVR BB+/ Credit Watch with Developing Implications	IVR BBB/ Credit Watch with Developing Implication	-
5.	Short Term Fund Based Facility – STL	Short Term	46.10	IVR A3 / Credit Watch with Developing Implications	IVR A4+ (IVR A Four Plus)	IVR A3+ (IVR A Three Plus)	IVR A3+ (IVR A Three Plus)
6.	Short Term Non Fund Based Facilities – LCs /BGs	Short Term	4250.43	IVR A3 / Credit Watch with Developing Implications	IVR A4+ (IVR A Four Plus)	IVR A3+ (IVR A Three Plus)	IVR A3+ (IVR 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](http://www.infomerics.com).

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### 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.

**Disclaimer:** Infomerics ratings are based on information provided by the issuer on an 'as is where is' basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change, suspend or withdraw the credit ratings at any point 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 1: 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	-	-	-	1072.55	IVR BBB-/ Credit Watch with Developing Implications
Long Term Fund Based Facility – Working Capital Term Loan	-	-	Upto September 2022	148.20	IVR BBB-/ Credit Watch with Developing Implications
Long Term Fund Based Facility - OCD	-	-	Upto 2029	482.32	IVR BBB-/ 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



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Short Term Fund Based Facility – STL	--	--	-	46.10	IVR A3
Short Term Non Fund Based Facilities – LCs /BGs	-	-	-	4250.43	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/Patel-Engineering-lenders-27aug21.pdf>)

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

### **Annexure 5: Complexity level of the rated Instruments/Facilities**

Sr No.	Instrument	Complexity Indicator
1.	Working capital (CC)	Simple
2.	Working Capital Term Loan	Simple
3.	Term Loans	Simple
4.	LCs/BGs	Simple
5.	Optionally Convertible Debentures (OCD)	Complex

**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).