

Press Release

Patel Engineering Ltd.

October 04, 2019

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating Assigned
1	Fund Based - CC	1439.13*	IVR BBB / Positive Outlook (IVR Triple B with Positive Outlook)
2	Fund Based - Term Loan	153.77	
3	Fund Based - OCD	594.00	
4	Short Term; Fund Based (STL)	64.10	IVR A3+ (IVR A Three Plus)
5	Short Term; Non Fund Based LC/BG	4536.00&	
	Total	6787.00	

* - Including proposed facility of Rs. 309 cr.

& - Including proposed facility of Rs. 1035 cr.

Details of facilities are in Annexure 1

Rating Rationale

The rating derives strength from company's experienced promoters having a vast experience and proven track record of project execution capability in large contracts, reputed clientele, healthy order book and moderate capital structure. The rating however is tempered by the debt restructuring in the past, volatile operations, working capital intensive operations with high contingent liabilities and volatile input prices. The outlook on the rating is positive owing to the continued reduction in overall debt which may further improve the debt protection parameters in the near term.

Key Rating Sensitivities

- **Upward movement in rating**

- Continued reduction in debt by realisation of actionable claims would call for a positive rating action.
- Scaling up of operations post S4A will be crucial for the rating upward

- **Downward movement in rating -**

- Any downward trend in operations and profitability and missing the projections would call for a rating action.
- Materialization of contingent liabilities would impact the company's financials substantially owing to its sheer size.

Detailed Description of Key Rating Drivers

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 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 large and complex civil, structural and road construction projects, in the fields of transportation, hydropower, tunnels, irrigation, 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. The repeat orders received from its clientele validate its construction capabilities.

Established relationship with reputed clients

The company has various well recognised organisations like NTPC Ltd, NHPC Ltd, NHAI, NEEPCO Ltd, IRCON, SJVN, MCGM and other government agencies 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 has entered into joint ventures with various reputed

players like KNR Constructions, Age Construction and Trading Inc, etc. Further, the top 10 customers of the company contributed around 62% of the annual turnover during FY19, indicating a moderately diversified clientele profile.

Healthy order book reflecting satisfactory medium term revenue visibility

The company has a strong order book position (Rs.10497 crore as on June 30, 2019) with orders across various contracts which is about 4.5 times of its FY19 consolidated revenue. These orders are expected to be completed within next three-four years, indicating a satisfactory medium term revenue visibility.

Moderate capital structure

The company's capital structure improved further during FY19 marked by overall gearing of 1.24x as on March 31, 2019 from 1.39x as on March 31, 2018 on account of reduction of term debt as well as working capital outstanding on account of pre-payment (aggregating around Rs.500 crore in FY18) primarily through monetization of real estate assets aggregating over Rs.650 crore. Further the company's debt protections parameters are also moderate, marked by interest coverage ratio of 1.31x during FY19.

Key Rating Weaknesses***Debt restructuring in the past***

Due to the delay in realisation of various actionable claims in the form of arbitration awards and claims pending with various Government entities in the past, the company's account went into SDR in early 2016. However, the account has been classified as standard presently with the last delay/default being cleared by the company post implementation of S4A in November 2017.

Volatility in scale of operations

Although the operating income increased by ~5% in FY19, PEL's revenue from operation declined by around 40% from Rs.3667.24 crore in FY17 to Rs.2202.66 crore in FY18, mainly due to reduced order inflows in earlier years and completion of substantial portion of a few large existing projects prior to FY18.

Working capital intensity

Construction business is inherently working capital intensive. For this purpose, the company is relying on working capital & bank borrowings and long credit period provided by its input suppliers based on its long and established presence. The collection period, although

improved in FY19, has high three year's (FY17 to FY19) average of around 85 days as majority of the clients are government entities wherein the collection period is longer. To add, as the WIP inventory is also high, this has resulted in the operating cycle being high at 460 days during FY19. The average working capital utilisation in the last 12 months ended July, 2019, also stood high at about 93.72% on account of arbitration claims/awards, pending dues from government agencies and milestone based project works.

High Amount of Contingent Liabilities

The company had total outstanding contingent liability of Rs.2538.4 crore as on March 31, 2019, which majorly includes counter indemnities given to banks (Rs 1334.7 cr.) in respect of secured guarantees in favour of group entities, various income tax demands, service tax demands, etc.

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.

Analytical Approach and Applicable Criteria:

- Consolidated (Infomerics has analysed the financials of all the subsidiaries of Patel Engg Ltd. The list of all the entities considered for analysis is provided in Annexure II)
- Rating Methodology for infrastructure companies
- Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity

The company does not have any major term debt repayment in the forthcoming years and even, they projected prepayment of some portion of term debt. The company's operation is improving and hence, it is expected to generate sizeable accruals, going forward. Further, the company had free cash and bank balance of Rs.121.53crore as on March 31, 2019 on standalone level. Overall, the liquidity position of the company is expected to be adequate to meet its near-term debt servicing obligation.

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, etc. As on date, the company has completed construction of around 84 dams, 40 hydroelectric projects and 33 tunnelling projects with around 180 kms 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)

(Rs. Crore)

For the year ended / As on	31-Mar-18 (A)	31-Mar-19 (A)
Total Operating Income	2451.57	2492.34
EBITDA	707.81	484.98
PAT	98.11	154.15
Total Debt	2910.24	2698.01
Tangible Net worth	2098.94	2169.44
EBIDTA Margin (%)	28.87	19.46
PAT Margin (%)	4.16	6.08
Overall Gearing ratio (x)	1.39	1.24

* Classification as per Infomerics' standards

Details of Non Cooperation with any other CRA: Nil

Any other information: N.A

Rating History for last three years:

Name of Instrument/ Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
	Type	Amount outstanding (Rs. crore)	Rating	Rating assigned in 2018-19	Rating assigned in 2017-18	Rating assigned in 2016-17
Fund Based Facilities	CC; TL & OCD	2186.90	IVR BBB/ Positive Outlook	--	--	--
Fund Based Facilities	STL	64.10	IVR A3+			
Non - Fund Based Facilities	LC/BG	4536.00	IVR A3+	--	--	--

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.

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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.

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Annexure 1: Details of Facilities

Sr. no	Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. crores)	Rating Assigned/ Outlook
1	Long Term Fund Based (CC)	--	--	Revolving	1439.13	IVR BBB/ Positive Outlook
2	Long Term Fund Based (Term Loan)	--	--	7 years	153.77	
3	Long Term Fund Based (OCD)	--	--	Nov, 2027	594.00	
4	Short Term; Fund Based (STL)	--	--	280 days	64.10	IVR A3+ (IVR A Three Plus)
5	Short Term; Non Fund Based (LC/BG)	--	--	Less than one year	4536.00	
Total					6787.00	

Annexure II: List of entities considered for consolidated analysis

Wholly owned (100%) Subsidiaries:

- Patel Energy Resources Limited
- Patel Engineering Inc.
- Patel Engineering (Mauritius) Limited
- Patel Engineering (Singapore) Pte. Limited
- Patel Engineering Infrastructure Limited

- Patel Concrete and Quarries Private Limited
- Friends Nirman Private Limited
- Zeus Minerals Trading Private Limited
- Patel Patron Private Limited
- Patel Engineers Private Limited
- Pandora Infra Private Limited
- Patel Engineering Lanka Private Limited
- Shashvat Land Projects Private Limited.
- Vismaya Constructions Private Limited
- Bhooma Realties Private Limited
- Patel Lands Limited
- Energy Design Private Limited
- Shreeanant Construction Private Limited (w.e.f November 25, 2014)
- Patel Land Developers Limited (from 19.09.2016)
- Apollo Buildwell Private Limited
- Arsen Infra Private Limited
- Hera Realcon Private Limited
- Lucina Realtors Private Limited
- Nirman Constructions Private Limited (upto 27.12.2016)
- PBSR Developers Private Limited
- Waterfront Developers Limited

• Other Subsidiaries

Name of Subsidiaries	% holding
Michigan Engineers Private Limited	51.00%

• Joint Ventures

Name	% of share
Patel Michigan Jv	10.00%
Cico Patel Jv	99.90%
Patel SEW JV	60.00%
Patel –Knr J.V.	50.00%
Knr – Patel J.V.	49.00%
Patel – Soma J.V	50.00%

Patel – V Arks Jv	65.00%
Navyuga – Patel – Bhel	42.23%
Patel – Avantika – Deepika – Bhel	52.83%
Patel – V Arks – Precision	60.00%
Age Patel Jv	49.00%
Pel–UeiplJv	60.00%
Pel-Ppcpl-HcplJv	51.00%

- Associate companies**

Name	% of share
Bellona Estate Developers Ltd	49.00%
Hitodi Infrastructure Ltd	49.00%
Terra Land Developers Ltd	49.33%
Patel KNR Heavy Infrastructure Ltd	42.00%
PAN Realtors Pvt Ltd	37.57%
RaichurSolapur Transmission Co. Pvt Ltd	33.34%
ACP Tollways Pvt Ltd	32.00%