

Press Release

Patel Engineering Limited (PEL)

July 20, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 6,215.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable
Short Term Rating	ACUITE A3

* Refer Annexure for details

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and short term rating of '**ACUITE A3**' (read as **ACUITE A three**) on the Rs. 6,215.00 crore bank facilities of Patel Engineering Limited. The outlook is '**Stable**'.

Incorporated in 1949, Patel Engineering Limited (PEL) has been engaged in the construction of dams, bridges, tunnels, roads, piling works, industrial structures and other kinds of heavy civil engineering works in areas like hydro, irrigation & water supply, urban infrastructure and transport. PEL has also forayed into development of power, road and real estate projects in the past. The Company has a consistent track record in executing complex domestic and international projects. PEL has completed over 84 dams, 33 hydroelectric projects (plus 13 current projects), and 200 km of tunneling projects. As on March 31, 2018 PEL has an order book position from engineering & construction (EPC) business of Rs.8,241 Cr.

Debt Restructuring

PEL has implemented SDR (through part carve out of debt & change in management in Hitodi Infrastructure Limited) and S4A schemes of RBI (under prevailing RBI guideline during that time) during CY 2016 and CY 2017 to align its debt in line with its operating cashflows. As part of the restructuring scheme under S4A, existing promoters were given an opportunity to continue subject to infusion of Rs. 150 Cr equity in the company. The same has been complied with by the promoters. The total debt of the company had been split into Sustainable PART-A Debt Rs.1,724 Cr. (Fund Based) and unsustainable PART-B debt Rs.1,239 Cr. Further, non-fund based limits, both current and additional limits approved under the scheme by the Overseeing committee shall form part of Sustainable Debt. Under the Scheme, the Part B debt is converted into Optionally Convertible Debentures (OCDs) (repayable from the sixth year) issued to the said lenders with balance Part A debt to be serviced as per the existing terms. On account of realizations from the sale of real estate properties, PART-A debt has been reduced to Rs. 1,367 Cr and PART-B debt has been reduced to Rs. 605 Cr as on March 31, 2018.

Analytical Approach

Acuite has taken a standalone view of the financial and business risk profile of PEL.

Outlook: Stable

Acuite believes that PEL will maintain 'Stable' financial risk profile over the medium term supported by its experienced management, good revenue visibility backed by a healthy order book position and reputed clientele. The outlook may be revised to 'Positive' in case of higher -than-expected growth in operating income with retention of profitability margins and/or reduction of further debt, if any. The outlook may be revised to 'Negative' in case of any deterioration in the working capital and liquidity position of the company.

Key Rating Drivers

Strengths

- **Established Track record of operations and experienced management**

PEL has been engaged into EPC/infrastructure development for more than six decades with national presence and major operations spread all over India. Mr. Rupen Patel, Managing Director of PEL has

an experience of more than two decades in the construction industry. His father Mr. Pravin Patel (Ex-Chairman) has a wide experience of more than four decades in EPC industry, town planning and architecture. The management is ably supported by a well-qualified and experienced team of professionals. Some of the landmark projects of PEL include 1880 MW Koyna Hydro Electric project, 900 MW Srisailem Left Bank Hydro Power Station, Kalwakurty Lift Irrigation Project, Construction of high altitude roads (Karzok to Chumar), construction of Dam for Shillong Water Supply and the Tuirial Hydro Electric Project in Mizoram among others. The extensive experience of the promoters in the industry has helped the company build its market presence.

The track record of the company in moderate to large infrastructure contracts is reflected through its healthy order book position of Rs. 8,241 Cr. as on March 31, 2018, thereby providing a strong revenue visibility. The order book of PEL is also well diversified among segments with power sector comprising 43 per cent, irrigation and water 19 per cent and transportation & urban infrastructure and others (including tunnels etc.) accounting for 38 per cent. Acuite believes that PEL will continue to benefit from its experience in the infrastructure sector and its diversified order book over the medium term with having projects under L1 category valuing over Rs. 2,500 Cr.

- **Reputed clientele**

Over the years PEL has gained necessary pre-qualification criteria for heavy infrastructure sectors by successfully completing large ticket, technologically advanced and technically complex projects.

On account of his established presence in the industry, PEL has been able to build esteemed client profile spanning both Private as well as Government agencies. Some of the key customers are, North Eastern Electric Power Corporation Limited (NEEPCO), National Thermal Power Corporation Limited (NTPC), National Hydro Power Corporation (NHPC), National Highway Authority of India (NHAI), Karnataka State Highways Improvement Project (Government of Karnataka), Satluj Jai Vidyut Nigam Ltd (SJVN, Mini Ratna), IRCON to name a few.

Further, it has entered into joint venture partnerships with several esteemed companies around the globe including Age Construction and Trading Inc, a Turkish Co., KNR Construction s Ltd etc. among others. Joint capabilities of its partners enhance credibility and capability to execute complex and special projects.

- **Improved financial flexibility**

PEL is listed on the Bombay Stock Exchange (BSE) and National Stock Exchange (NSE). The company has market capitalization of Rs. 585 Cr. as on July 19, 2018 and has raised funds from banks, financial institutions, exchanges and capital markets. As part of the S4A scheme, Rs. 150 Cr. has been successfully infused by the promoters in PEL, along with dilution in stake by promoters as required under the implemented scheme.

PEL continues to hold significant assets in form of Real Estate. PEL owns a large land bank primarily concentrated in the metro cities of Mumbai, Hyderabad, Bangalore and Chennai. These land parcels are proposed to be monetized in due course of time and the realizations shall be used for the repayment of lender's dues. The borrowings of the company have been substantially reduced to Rs. 2,125 Cr fund based debt, post S4A and transfer of credit awards/ claims in Hitodi Infrastructure Limited (HIL). HIL is a separate subsidiary formed between PEL and Eight Capital Group entity (Investor Company) holding 51 per cent of the shareholding in the newly formed company to reduce the debt burden of PEL and align the repayment of debt with realization of assets. Further, PEL continues to hold substantial amounts of Awards/ Claims which are expected to be recorded over the next 12-36 months which will further reduce the debt.

PEL is expected to generate healthy Net Cash Accruals over the medium term which will improve the financial flexibility since the company does not have any major repayments for the next five years. Repayments of the OCDs will begin sixth year onwards from the scheme implementation date.

The lenders of PEL have already implemented the scheme while one of the NCD holder viz. Life Insurance Corporation of India (LIC) is yet to complete the process of sanction of the said scheme. Acuite understands that such a process will be completed within a reasonable time. Timely resolution of these discussions will be critical to the maintenance of stable credit profile and any challenges faced in ensuring timely resolution could be a rating sensitivity.

The company is also in the process of creating adequate cushion in its cash credit limits and

unencumbered deposits to facilitate the full implementation of the resolution plan. PEL has unencumbered cash and cash equivalents of Rs.105 Cr. as on March 31, 2018 and there has been no instance of bank guarantee invocation post implementation of the scheme.

As a part of the revival plan, additional non-fund based limits of ~Rs.2,000 Cr. were proposed to be given by all lenders, out of which approx. Rs. 1,600 Cr. has been sanctioned till date. These additional limits will help PEL in undertaking and bidding for fresh projects.

Weaknesses

• Working capital intensive operations

Operations of PEL are highly working capital intensive marked by significantly high Gross Current Assets (GCA) days of 765 in FY2018 (Provisional) as against 750 days in FY2017. This is majorly on account of high inventory holding period of 620 days in FY2018 (Provisional) as against 651 days in FY2017. More than 70 per cent of the debtors as on March 31, 2018 (Provisional) represent receivables of more than 180 days.

Work In Progress related to projects under arbitration, delay in projects leading to higher inventory period and increasing receivables (majorly government undertakings) have contributed to company's stretched working capital cycle.

More than 90 per cent of the contracts won and executed by PEL are from central and state Government agencies. The company has witnessed working capital stretch due to delayed payments from clients which in turn has slowed down project execution in certain cases and has also impacted overall company growth.

On an average PEL's Fund-based Cash Credit limits of Rs. 1,135 Cr are almost fully utilized for the last six months ending April 2018.

• Competitive and fragmented industry

PEL is engaged as an EPC contractor. This particular sector is marked by the presence of several mid to large sized players. The company faces intense pricing competition from the other players in the sectors. The risk becomes more pronounced as tendering is based on minimum amount of bidding on contracts and susceptibility to inherent cyclical nature in the sector.

Acuite believes that PEL is well positioned on account of its longstanding relationship with well-established international players in the infrastructure industry and the long track-record of its promoters - spanning nearing six decades.

• Susceptibility of Operating Performance to Regulatory Risks

PEL's operating cash flows are dependent on 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.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	2039	2926	2764
EBITDA	Rs. Cr.	457	536	400
PAT	Rs. Cr.	59	42	-30
EBITDA Margin	(%)	22	18	14
PAT Margin	(%)	3	1	-1
ROCE	(%)	11	11	18
Total Debt/Tangible Net Worth	Times	1.08	2.05	2.78
PBDIT/Interest	Times	1.18	1.24	1.01
Total Debt/PBDIT	Times	3.80	5.65	7.62
Gross Current Assets (Days)	Days	765	750	799

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-14.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	130.00	ACUITE BBB-/ Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	65.00	ACUITE BBB-/ Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	113.93	ACUITE BBB-/ Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	97.36	ACUITE BBB-/ Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	98.26	ACUITE BBB-/ Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	76.30	ACUITE BBB-/ Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	222.50	ACUITE BBB-/ Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	136.00	ACUITE BBB-/ Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	66.81	ACUITE BBB-/ Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	36.57	ACUITE BBB-/ Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	92.11	ACUITE BBB-/ Stable
Term Loan	Not Applicable	Not Applicable	Not Applicable	98.39	ACUITE BBB-/ Stable
Term Loan	Not Applicable	Not Applicable	Not Applicable	12.01	ACUITE BBB-/ Stable
Term Loan	Not Applicable	Not Applicable	Not Applicable	6.5	ACUITE BBB-/ Stable
Term Loan	Not Applicable	Not Applicable	Not Applicable	1.33	ACUITE BBB-/ Stable
Working Capital Term Loan	Not Applicable	Not Applicable	Not Applicable	10.78	ACUITE BBB-/ Stable
Working Capital Term Loan	Not Applicable	Not Applicable	Not Applicable	12.32	ACUITE BBB-/ Stable

Working Capital Term Loan	Not Applicable	Not Applicable	Not Applicable	16.15	ACUITE BBB-/ Stable
Working Capital Term Loan	Not Applicable	Not Applicable	Not Applicable	20.3	ACUITE BBB-/ Stable
Working Capital Term Loan	Not Applicable	Not Applicable	Not Applicable	20.53	ACUITE BBB-/ Stable
Working Capital Term Loan	Not Applicable	Not Applicable	Not Applicable	13.04	ACUITE BBB-/ Stable
Working Capital Term Loan	Not Applicable	Not Applicable	Not Applicable	21.72	ACUITE BBB-/ Stable
Letter of Credit/ Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	277.00	ACUITE A3
Letter of Credit/ Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	401.14	ACUITE A3
Letter of Credit/ Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	360.00	ACUITE A3
Letter of Credit/ Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	226.04	ACUITE A3
Letter of Credit/ Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	375.00	ACUITE A3
Letter of Credit/ Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	155.16	ACUITE A3
Letter of Credit/ Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	114.92	ACUITE A3
Letter of Credit/ Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	551.95	ACUITE A3
Letter of Credit/ Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	42.32	ACUITE A3
Letter of Credit/ Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	328.84	ACUITE A3
Letter of Credit/ Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	471.78	ACUITE A3
Letter of Credit/ Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	21.12	ACUITE A3
Letter of Credit/ Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	15.31	ACUITE A3
Letter of Credit/ Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	17.03	ACUITE A3
Letter of Credit/ Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	42.72	ACUITE A3
Letter of Credit/ Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	20.63	ACUITE A3
Letter of Credit/ Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	296.93	ACUITE A3
Letter of Credit/ Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	214.90	ACUITE A3
Letter of Credit/ Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	108.30	ACUITE A3
Proposed Non-Fund based facility	Not Applicable	Not Applicable	Not Applicable	806.00	ACUITE A3

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About Acuité Ratings & Research:

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