

Press Release

PRATHIMA INFRASTRUCTURE LIMITED

January 8, 2020

Rating Assigned



Total Bank Facilities Rated*	Rs.426.00 Cr.
Long Term Rating	ACUITE BBB / Outlook: Stable
Short Term Rating	ACUITE A3+

* Refer Annexure for details

Rating Rationale

Acuite has assigned its long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) and short-term rating of '**ACUITE A3+**' (read as **ACUITE A three plus**) to the Rs. 426.00 Cr bank facilities of PRATHIMA INFRASTRUCTURE LIMITED (PIL). The outlook is 'Stable'

Incorporated in 1991, Prathima Infrastructure Limited (PIL) is a Hyderabad (Telangana) based company; engaged in the business of civil construction and primarily undertakes irrigation works in Telangana. The company is promoted by Mr. Srinivas Rao Boinipally and Mrs. Usha Rani Boinipally. PIL is a prominent infrastructure construction company with nearly three decades of experience in executing various infrastructure projects, especially in the irrigation segment. The company is registered as a special class contractor with the public works departments of Telangana.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of PIL to arrive at the rating.

Key Rating Drivers

Strengths

• Experienced Management

Ms. Usha Rani Boinipally, Mr. B. Srinivasa Rao, Ms. Savithri Icchapurapu are actively involved in the day to day operations of the company and have an experience of over two decades in the civil construction industry. The directors are well supported by along with other professional team. With the promoter's extensive industry experience and timely execution of projects, the company has been able to establish long-standing relationship with various government as well as private clients. The Company is executing irrigation works as JV partner and also on a back to back basis as sub-contractor with reputed companies like Larsen & Toubro Limited (L & T), Navayuga Engineering Company Limited (NECL), Nagarjuna Construction Company Ltd (NCC), BVSR Constructions Private Limited (BVSR), among other principal contractors over a period. The extensive experience of the promoters is also reflected through the healthy compounded annual growth rate (CAGR), the company recorded in its revenues. The revenue of the company is estimated to grow at a CAGR of 34-40 per cent over the last four years through FY 2020. Acuite believes that PIL will continue to benefit from the promoter's established presence in the industry; its improving business risk profile and strong counterparties will sustain and support the company over the medium term.

• Continued growth in operating income supported by healthy order book position and Technical prowess

The company had witnessed a significant increase in order execution; it has reported revenue of Rs.582.50 Cr in FY2019 as compared to Rs.453.27 Cr in FY2018, Rs.257.96 Cr in FY2017; on the back healthy order inflow and ramp-up in execution over the last four years. As of March 31, 2018, PIL has an unexecuted order book position of Rs.1,555 Cr as of November, 2019; the same is estimated to be executed over the next 24-36 months which provides adequate revenue visibility over the medium term. Majority of its projects are on back to back sub-contract basis; and also funded projects. For 9M2019, PIL has reported revenues on provisional basis of about Rs.323 Cr and for FY 2020 revenue is estimated to remain in the range of 700-750 Cr. Further, over the past three years, PIL equipped itself with strong line of equipment with investment of nearly Rs.106.50 Cr on equipment and plant and machinery to support the growth in its execution capacity lead to a healthy revenue growth.

Acuite believes that healthy unexecuted order book, technical prowess and well-funded projects are expected to support PIL in improving its business risk profile further over the medium term.

- **Moderate financial risk profile**

PIL's financial risk profile is moderate, marked by a healthy net worth, low gearing and healthy debt protection metrics. The operating income of the company grew by 29 % to 582.50 Cr in FY 2019 backed by healthy project execution. While its operating margin (of around 12% in FY2019 and 15% in FY2018) has resulted in steady accretion to reserve, thereby strengthening network. Its network is rose to Rs 152.57 Cr as on March 31, 2019 as against 123.23 in FY2018. Acuite expects the revenue growth and profitability levels to sustain over the medium term supported by healthy orders and strong execution capabilities.

The company has followed a conservative financial policy in the past, as reflected through its peak gearing levels of 0.77 times as March 31, 2019; the same is reflected through its healthy gearing level. The gearing level (debt-equity) stood at 0.77 times as on March 31, 2019 as against 0.62 times as on March 31, 2018 (Debt to EBITDA stood at 1.67 times in FY2019 as against 1.09 times in FY2018). The gearing of the company is expected to remain low over the medium term on account of absence of any debt funded capex plans and moderate accretion to reserves.

The interest coverage (ICR) ratio stood healthy at around 6.62 times and NCA/TD (Net Cash Accruals to Total Debt) ratio stood at 0.36 times in FY2019 Vis-à-vis 9.59 times and 0.91 times in FY2018. PIL has been generating healthy cash accruals of about Rs.42.14 Cr during FY2019 and its repayment obligations are about Rs.12.18 Cr during the same period. PIL's cash accruals are estimated to remain around Rs.70-90 Cr during 2020-22 while its repayment obligations are estimated to be around Rs. 15 Cr with modest regular capex of about Rs.15-20 Cr; gives adequate comfort for the incremental working capital requirements.

Acuite believes that the financial risk profile of the company is expected to remain moderate backed by expected ramp-up in operations and moderate routine capital expenditure towards addition and replacement of machinery and equipment, PIL's liquidity position is also likely to remain healthy.

Weaknesses

- **Moderate working capital intensity**

Although working capital management on improving trend, the PIL's operations are moderately working capital intensive in nature as it operates in infrastructure industry. The working capital cycle has improved in FY2019 over previous year however; it continues to remain moderately intensive as reflected by its gross current assets (GCA) days of 169 days for FY2019 as compared to 234 days for FY2018. The contracts are long term in nature, which results in high work in progress inventory of 45 days for FY2019 as against 63 days in FY2018. The receivables period has improved to 49 days in FY2019, which has been brought down from 88 days for FY2018. Incremental working capital requirements with growth in scale of operations have resulted in high fund based bank limit utilisation levels. The average cash credit limit utilisation is high at ~99 percent during the last six months ended as on November 2019. Acuite expects the operations of the PIL to remain moderately working capital intensive being Government projects wherein execution is more skewed towards last quarter, the operations continue to be working capital intensive over the medium.

- **Competitive Industry and geographical concentration risk**

PIL is into irrigation projects, wherein the sector is marked by the presence of several mid to large sized players. The risk becomes more pronounced as tendering is based on minimum amount of bidding on contracts, and susceptibility to inherent cyclicity in the infrastructure segment; further, it's dependent on State Govt's thrust on irrigation and other infrastructure works. Further PIL is exposed to geographic concentration risk as the company executes majority of its projects in the state of Telangana. However, this risk is mitigated to an extent as management operating in this environment for nearly three decades. Acuite believes that PIL's revenues and margins are susceptible to the competitive bidding scenario, besides its geographical concentration of its projects to the State of only Telangana.

Liquidity Position: Adequate

PIL's liquidity is adequate marked by healthy net cash accruals to its maturing debt obligations. PIL has been generating healthy cash accruals of about Rs.42.14 Cr during FY2019 and its repayment obligations are about Rs.12.18 Cr during the same period. PIL's cash accruals are estimated to remain around Rs.70-90 Cr during 2020-22 while its repayment obligations are estimated to be around Rs. 15 Cr with modest regular capex of about Rs.15-20 Cr; gives adequate comfort for the incremental working capital requirements. The working capital cycle has improved in FY2019 over previous year however; it continues to remain moderately intensive as reflected by its gross current assets (GCA) days of 169 days for FY2019 as

compared to 234 days for FY2018; owing to WIP inventory. Further, given the growing order book size and additional orders expected in the medium term, the company has high NFB limit requirement to meet its performance guarantee and for the realisation of retention money for the awarded contracts. The company's average non fund based limit utilization remained at ~94 % during the last 12 months ended November 2019. Incremental working capital requirements with growth in scale of operations have resulted in high fund based bank limit utilisation levels. The average cash credit limit utilisation is high at ~99 percent during the last six months ended as on November 2019. PIL's unencumbered cash and bank balances are Rs.8.79 Cr as on March 31, 2019. The current ratio of PIL is moderate at 1.35 times as on March 31, 2019. Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy cash accruals to its debt repayments over the medium term.

Rating Sensitivities

- Scaling up of sales along with sustained improvement in the profitability margins
- Any unplanned significant capex resulting in deterioration in the financial risk profile.
- Timely execution of current order book without any cost overrun.
- Stretch in the working capital cycle leading to GCA days beyond 200 days will impart negative bias to the rating.
- Significant advances to Group entities, which adversely impacted the return on capital employed and the high working capital intensive nature of business

Material Covenants

None

Outlook: Stable

Acuite believes the PIL will maintain 'Stable' outlook over the medium term on account of established presence in the infrastructure sector and healthy order book position. The outlook may be revised to 'Positive' if there is significant and sustained improvement in its scale of operations while improving its operating profitability and working capital management. Conversely, the outlook may be revised to 'Negative' in case of stretched working capital cycle or decline in profitability or larger-than-expected debt-funded capital expenditure or any significant advances to any group entities resulting in deterioration of its financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	582.50	453.27
PAT	Rs. Cr.	28.86	62.64
PAT Margin	(%)	4.95	13.82
Total Debt/Tangible Net Worth	Times	0.91	0.77
PBDIT/Interest	Times	6.62	9.59

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Infrastructure Sector Entities - <https://www.acuite.in/view-rating-criteria-51.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.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	50.00	ACUITE BBB / Stable
Proposed Bank facility	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE BBB / Stable
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	126.00	ACUITE A3+
Proposed Bank facility	Not Applicable	Not Applicable	Not Applicable	200.00	ACUITE A3+

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