

Press Release

PRATHIMA INFRASTRUCTURE LIMITED

March 30, 2021



Rating Upgraded

Total Bank Facilities Rated*	Rs. 426 Cr.
Long Term Rating	ACUITE BBB+ / Outlook: Stable (Upgraded from ACUITE BBB/Stable)
Short Term Rating	ACUITE A2 (Upgraded from ACUITE A3+)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded its long-term rating to '**ACUITE BBB+** (**read as ACUITE triple B plus**) from '**ACUITE BBB**' (**read as ACUITE triple B**) and upgraded its short term rating to '**ACUITE A2**' (**read as ACUITE A two**) from '**ACUITE A3+**' (**read as ACUITE A three plus**) on the Rs.426.00 Cr bank facilities of Prathima Infrastructure Limited (PIL). The outlook is '**Stable**'.

The rating upgrade takes cognizance of substantial growth expected in the operating income and stability in operating margins over the medium term backed by the execution of its healthy and prudently funded order book of Rs. 4,271 Cr as on January 31, 2021 (6.7 times of FY2020 operating income). PIL has consistently shown healthy operating performance, driven by moderate revenue growth, stable operating margin. The company revenues grew at a CAGR of 35 percent during the period between FY2017-FY2020 (Operating income of Rs. 634.15 Cr in FY2020) on the back of healthy order execution. Although the company's operating income is expected to decline by 25-27 percent in FY2021 owing to the outbreak of Covid-19; the revenue run rate is expected to recover to pre-Covid levels FY2022 onwards assisted by deliverable of its huge order book by FY2023. Operating margin remained stable at over 12-15 percent in the past and is likely to remain at similar level, going forward. Stable operating margin and relatively well-managed working capital cycle resulted in healthy return on capital employed of over 24 percent in the 3 years through FY2020. The upgrade also factors in PIL's improving financial risk profile, as indicated by improvement in capital structure and debt protection metrics and presence of adequate liquidity. The rating takes into account its established track record in the civil construction sector and extensive experience of the promoters.

The rating is, however, constrained by the execution risks with ~75 percent of the order book in the initial stages of execution as on January 31, 2021; any delay in receipt of prerequisite approvals could adversely affect the revenues and profitability. The rating is also constrained by high segmental concentration and geographical concentration risk in its revenue profile, significant advances extended to Group companies along with investments in associates, its tender-based business operations, exposure to slowdown in Indian economy on account of the ongoing Covid-19 pandemic and intense competition due to the fragmented nature of the civil construction sector.

Incorporated in 1991 by Mr. Srinivas Rao Boinipally, Prathima Infrastructure Limited (PIL) is a Hyderabad (Telangana) based company. PIL is a prominent infrastructure construction company with nearly 3 decades of experience in executing various infrastructure projects, especially in the irrigation segment. PIL jointly bids for irrigation contracts and also undertakes contract work on back to back basis as sub-contractor from reputed companies like Larsen & Toubro Limited (L & T), Navayuga Engineering Company Limited (NECL), Nagarjuna Construction Company Ltd (NCC), BVSR Constructions Private Limited (BCPL) among others. The company is registered as a special class contractor with the public works departments of Telangana.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of PIL to arrive at the rating.

Key Rating Drivers

Strengths

- **Established track record, experienced management and healthy order book providing adequate**

revenue visibility over the next 2-3 years

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. With promoter's extensive industry experience and timely execution of projects, the company has been able to establish long-standing relationship with various government bodies in Telangana as well as other corporate clients. The Company executes irrigation projects 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 others. The extensive experience of the promoters is also reflected through the healthy compounded annual growth rate (CAGR) in total operating income of 35 percent over the period FY2017 to FY2020. PIL has registered growth of around 9 per cent in FY2020 over FY2019 in operating income. Acuité believes that healthy unexecuted order book, technical prowess and well-funded projects, promoter's established presence in the industry and strong counterparties will support PIL's business profile over the medium term.

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

The company had witnessed a substantial increase in order execution; it has reported revenue of Rs. 634.15 Cr in FY2020 as compared to Rs.582.50 Cr in FY2019, Rs.453.27 Cr in FY2018; backed by its healthy order inflow and ramp-up in execution over the last four years. As of January 31, 2021, PIL has an unexecuted order book position of Rs.4271 Cr; 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. The year-to-date revenue is impacted due to outbreak of Covid-19. FY2021 revenue is expected to show negative growth of 25-27 percent compared to last year revenues. In 10M FY2021, the company achieved a turnover of ~Rs. 330 Cr and is projected to achieve a turnover of Rs.450-475 Cr in FY2021. Further, over the past three years, PIL equipped itself with strong line of equipment with investment of nearly Rs.80 Cr on equipment and plant and machinery to support the growth in its execution capacity over the last xx years.. In FY2021, PIL has invested about 50 Cr on equipment and plant and machinery to meet the requirements of unexecuted order book. Acuité believes that similar growth trajectory is likely to continue over the medium term too.

- Healthy financial risk profile**

PIL's financial risk profile is healthy, marked by healthy capital structure and debt protection metrics. PIL has healthy net worth at Rs.196.54 Cr as on March 31, 2020 as against Rs.128.51 Cr as on March 31, 2019 due to improving profitability. Healthy net worth and low fun-based debt resulted in healthy gearing (debt-to-equity) and moderate total outside liabilities to tangible networth (TOL/TNW) ratio of 0.57 times and 1.93 times respectively, as on March 31, 2020 vis-à-vis 0.91 times and 2.54 times as on March 31, 2019. Debt protection metrics are healthy, reflected in interest coverage (ICR) and net cash accrual to total debt ratio (NCA/TD) of 7.81 times and 0.52 times, respectively, in FY2020 vis-à-vis 6.62 times and 0.36 times for FY2019. PIL generated cash accruals of Rs.58.53 Cr as against repayment obligation of Rs.24.32 Cr during as on March 31, 2020. The cash accruals of the company are estimated to remain around Rs.40-70 Cr during 2021-23 while their repayment obligations are estimated to be around Rs.14-25 Cr during the same period. Acuité believes that the financial risk profile of the company is expected to remain healthy backed by expected ramp-up in operations and moderate routine capital expenditure towards addition and replacement of machinery and equipment.

Weaknesses

- Working capital-intensive operations**

PIL's working capital cycle is working capital intensive as reflected by its moderate GCA days in the range of 160-234 days over the last 3 years ending March 31, 2020. The GCA days are marked by low inventory days and moderate debtor days. PIL had inventory days of 8-63 days and debtor days of 49-88 days over the last 3 years ending March 31, 2020. Despite healthy cash conversion cycle, the GCA days have remained moderate as it includes the other current asset portion in the form of retention money, security deposits and other advances. PIL benefits from the ability to stretch towards its creditors and expenses payable to sub-contractors during last two years; creditor days ranged between 364-519 days. This led to moderately high utilization of bank lines at 82 percent over the past 10 months ending January 2021. The current ratio is modest about 1.13 times as on March 31, 2021. Acuité 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.

- Exposure to execution-related risks, tender-driven nature of the business, high geographic and**

segment concentration risks

With 75 percent of the order book in nascent stages of execution, the company remains exposed to project execution risks. Any delay project execution could adversely affect the company's revenues and profitability. PIL remains exposed to geographical concentration risks as the orders are largely confined to Telangana which account for 100 percent of the unexecuted order book. Further, the segmental concentration of the order book is high with the irrigation contributing to 100 percent of the unexecuted order book, respectively. 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 cyclical in the infrastructure segment; further, it's dependent on state government's thrust on irrigation and other infrastructure works. Acuité believes that above stated risks are mitigated to an extent as management operating in this environment for nearly three decades.

- Significant advances extended to Group companies and Investment in non-core businesses constrained liquidity position**

PIL had extended Rs. 30.80 Cr of loans and advances to Group companies in FY2020. Although the advances extended to Group companies declined from Rs. 47.23 Cr in FY2019, the company is yet to receive the major portion of the amount; the same will remain a key monitorable over the medium term. PIL has invested about Rs. 98.30 Cr in Smartcities Development Enterprise Private Limited and Rs.24 Cr investment in wholly owned subsidiary - Shafali Constructions Private Limited; both are in non-core business. The adjusted networth by knocking-off the above investments and loans and advances would be Rs. 74.18 Cr and Rs. 118.51 Cr as on March 31, 2020 and as on March 31, 2020 2019; gearing being 1.52 times and 0.99 times, respectively. Acuité expects that any further investments or loans and advances to these companies will lead to deterioration in its financial risk profile and liquidity.

Liquidity Position: Adequate

PIL's liquidity is adequate marked by moderate cash accruals to its repayment obligations albeit constrained by working capital intensive nature and modest current ratio. PIL generated cash accruals of Rs.58.53 Cr as against repayment obligation of Rs.24.32 Cr as on March 31, 2020. The cash accruals of the PIL are estimated to remain around Rs.30-60 Cr during 2021-23 while their repayment obligations are estimated to be around Rs.14-25 Cr during the same period. PIL's operations are working capital intensive as marked by Gross Current Asset (GCA) days in the range of 160-234 days over the last 3 years ending March 31, 2020. Its working capital credit limits were utilised at about 82 per cent during the last 10 months period ended Jan 2021. The current ratio is stood modest at 1.13 times as on March 31, 2020. The Civil construction business involves high dependence on non-fund based limits. The company utilised 80 percent of its non-fund based limits as on January 31, 2020. The decent cushion available in non-fund based limits. The expected enhancements in fund and non-fund based limits are likely to support its order book execution. Acuité believes that the liquidity of the PIL is likely to remain adequate over the medium term on account of adequate cash accruals against its repayment obligations and its internal accruals.

Rating Sensitivities

- Sustained increase in order inflow, providing adequate revenue visibility for the medium term
- Significant improvement in scale of operations while maintaining profitability margins
- Any large debt-funded capital expenditure, resulting in deterioration of financial risk profile.
- Timely execution of its large order book
- Timely enhancement of its fund and non-fund based limits to support the future order book execution
- Current ratio below unity

Outlook: Stable

Acuité believes that PIL will continue to benefit over the medium term due to extensive experience of its promoters, healthy order book and healthy financial risk profile. The outlook may be revised to 'Positive', if the company demonstrates substantial and sustained growth in its revenues from the current levels while improving its profitability and working capital intensity. Conversely, the outlook may be revised to 'Negative' in case of any sharp decline in its revenues or significant volatility in its profitability or delay in order execution leading to significant time and cost overruns or any significant stretch in its working capital management or any large debt-funded capex or further investments made in its group/associate entities leading to deterioration in the financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	634.15	582.50
PAT	Rs. Cr.	43.49	28.86
PAT Margin	(%)	6.86	4.95
Total Debt/Tangible Net Worth	Times	0.57	0.77
PBDIT/Interest	Times	7.81	6.62

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

None

Material covenants

None

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/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
08-January-2020	Cash Credit	Long Term	50.00	ACUITE BBB/Stable (Assigned)
	Proposed Long term Facility	Long Term	50.00	ACUITE BBB/Stable (Assigned)
	Bank Guarantee	Short Term	126.00	ACUITE A3+ (Assigned)
	Proposed Short term Facility	Short Term	200.00	ACUITE A3+ (Assigned)

*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 (Upgraded from ACUITE BBB/Stable)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE BBB+/Stable (Upgraded from ACUITE BBB/Stable)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	126.00	ACUITE A2 (Upgraded from ACUITE A3+)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	200.00	ACUITE A2 (Upgraded from ACUITE A3+)

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About Acuité Ratings & Research:

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