# Press Release

## P And C Projects Private Limited

## January 07, 2022

## Rating Assigned

| Product | Quantum (Rs. Cr) | Long Term Rating | Short Term Rating |
|---|---|---|---|
| **Bank Loan Ratings** | 414.60 | | ACUITE A2 \| Assigned |
| **Bank Loan Ratings** | 172.14 | ACUITE BBB+ \| Stable \| Assigned | |
| **Total** | 586.74 | - | - |

## Rating Rationale

Acuité has assigned its long term rating of **'ACUITE BBB+' (read as ACUITE t riple B plus)** and short term rating of **'ACUITE A2' (read as ACUITE A two)** on the Rs.586.74 Cr bank facilities of P&C Projects Private Limited (PCPPL). The outlook is **'Stable'**.

### Rationale for rating assigned

The rating takes into account PCPPL's moderate business risk profile marked by experienced promoters, healthy order book position, and continuous growth in the scale of operations. The rating also factors in above-average financial risk profile marked by a moderate networth, low gearing and improving debt protection metrics. These strengths are, however, partially constrained by the working capital intensive operations marked by moderate GCA days, high geographical concentration, past delays in the project execution on account of Covid-19 pandemic and unfavorable climate conditions and competitive and inherent risk of susceptibility to tender based operations.

### About the Company

Established in 1972 and based in Erode (Tamil Nadu), P&C Projects Private Limited (PCPPL) was initially set up as partnership firm by Late Mr. S P Periasamy and Mr. S P Chinnasamy. Later in year 1994, the firm's constitution was changed into a private company 'P&C Constructions Private Limited'. The company was later renamed as P&C Projects Private Limited (PCPPL) and currently is managed by Mr. S P Chinnasamy and second-generation team of Mr. S P Ravishankar, Mr. S P Rajesh, Mr. S C Sivakumar and other family members. PCPPL, a family owned business, undertakes civil construction activities primarily that of Roads, Highways, Buildings, Irrigation, Water supply and sewage/effluent treatment segments. The company is a 'Special Class' contractor registered with Government of Tamil Nadu, Kerala, Karnataka, etc. and undertakes works for Public Works Department, Municipal authorities, Roads & Buildings Department and State and National Highway authorities.

### Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the PCPPL to arrive at this rating.

### Key Rating Drivers

## Strengths

- **Promoters' extensive experience in civil construction industry; established track record of operations in southern region; healthy order book providing medium term revenue visibility**

PCPPL, a special class civil contractor, has established presence in executing projects related to buildings, water treatment plant, irrigation, roads and highways amongst others for both public and private sector. Mr. S P Chinnasamy, the chairman of PCPPL, has more than four decades of experience in the line of civil construction. With the promoters' extensive industry experience and timely execution of its past projects, PCPPL has been able to establish long-standing relationship with various government divisions such as Central Public Works Department (CPWD), Chennai Metropolitan Development Authority (CMDA), Public Works Departments, Tamil Nadu Water Supply and Drainage Board, Tamil Nadu Road Sector Project (TNRSP), many region-wise principals and national highway authorities amongst others. As on March 31, 2021(Prov), PCPPL has an unexecuted order book position of approx. Rs.2433.65 Cr; estimated to be executed over the next 24-36 months providing long-term revenue visibility. The outstanding order book is 3.89x of the FY2021 revenue of Rs.625.57 Cr (provisional). PCPPL is expected to receive additional new work orders allotment of around Rs.300 Cr by end of March'2022. The revenue of PCPPL has grown at a compound annual growth rate (CAGR) of ~9.14 per cent through FY2017-FY2021(Prov). Acuité believes that the promoters' extensive industry experience, established relation with its principal contractors and healthy order book will aid PCPPL's business risk profile over the medium term.

- **Above-average financial risk profile**

PCPPL's financial risk profile is moderate, marked by a moderate Networth and low gearing along with improving debt protection metrics. The EBITDA margins of the company improved to 11.96 per cent in FY2021 (Prov) against 11.48 in FY2020. The improvement is attributable to aggressive cost control and the company participating in profitable projects with earmarked funds. The EBITDA margins of the company have been stable and in range of 11-12 percent over the past 3 financial years. The PAT margins of the company has improved to 5.59 per cent in FY2021 (Prov) in comparison to 5.23 per cent in FY2020. The PAT margins in FY2021 was improved on account of improvement in the operating margins. The improvement in profitability levels has led to improvement in the debt protection metrics. The interest coverage ratio (ICR) and debt service coverage ratio (DSCR) stood at 3.61 times and 2.49 times respectively in FY2021 (Prov) as against 3.27 and 2.22 times respectively in the previous year.
The net worth of the company stood at Rs.207.09 Cr as on 31 March, 2021 (Prov) as against Rs.172.14Cr as on 31 March, 2020. The improvement is on account of moderate accretion of net profit in the reserves during the period. The gearing level (debt-equity) stands almost stagnant at 0.64 times as on 31 March, 2021 (Prov) as against 0.61 times as on 31 March, 2020, the marginal change is on account of increase in long term debt due to covid-19 emergency line of credit availed by the company during the period. TOL/TNW (Total outside liabilities/Total net worth) has improved and stands moderate at 1.31 times as on 31 March, 2021 (Prov) against 1.37 times in previous year. Moderate TOL/TNW is on account of presence of moderate leverage position of the company during the period.
The total debt of Rs.132.36 Cr as on 31 March, 2021 (Prov) consist of long-term debt of Rs.36.31 Cr, unsecured loans from Directors/Promoters of Rs.2.52Cr, short term debt of Rs.86.99 Cr and maturing portion of long term borrowings of Rs.6.54 Cr. PCPPL is following moderate leverage policy considering the scale of operations. NCA/TD (Net cash accruals to total debt) stands stable at 0.32 times in FY2021 (Prov) as against 0.31 times in FY2020.
Acuité expects the financial risk profile to remain above-average over the medium to long term on account of healthy capital structure and stable operations of the company.

- **Tender based nature of operations; central and state funded projects ensuring timely receivables**

PCPPL executes only tender based projects funded by central government, state

government bodies and international development agencies such as World Bank and Asian Development Bank (ADB) with low reliance on work received as a sub-contracting work from other entities. The funded projects are either budgetary support or funded from a consortium of banks. The bank guarantees (BG) submitted are typically 3.0-5.0 percent of the total work order value. In case of retention money, BGs have to be carried till completion of defect liability period, resulting in high working capital requirement in form of non-fund based limits. The defect liability period varies from segment-to-segment in the civil infrastructure sector.
The company raises bills on milestone (stage) basis. PCPPL has the option of availing mobilization advance and usually avails the same based on project requirements. The mobilization advance received from the clients against BGs as of March 31, 2021 stands at Rs.12.71 Cr. PCPPL's management avails the mobilization funds in projects funded by World Bank and Asian Development Bank (ADB) as the advances are interest free, whereas on other hand, the advances from domestic principals carries interest rate of around 12.00 percent. The percentage of retention money is determined on the basis of the contract size, nature of work and the customer. The authorities keep on realizing the mobilization advances money with every monthly bills.
In FY2021, PCPPL has billed for Rs.620.52 Cr of work done and demonstrated its ability to collect payment of 98.7 per cent of its work done amounting to Rs.612.76 Cr from the respective authorities. Acuité expects the operations of the company to remain efficient on account of timely collection of work billed from its respective authorities.

## Weaknesses

- **Working capital operations marked by moderate GCA days**

PCPPL's working capital cycle is marked by moderate gross current assets (GCA) days in the range of 165-201 days over the last 3 years ending March 31, 2021(Prov). The GCA days are majorly marked by moderate debtor days. The elevated GCA days of 165 days as on March 31, 2021 (Provisional) is on account of presence of debtors amounting to nearly Rs.93.40 Cr on account of major work billed in the month of March'21 during the closing of accounting period and impact of 2nd wave of covid-19 pandemic. The debtor days (excluding the retention money) stands in the range of 54-97 days over the last 3 years ending March 31, 2021 (Prov). These are partially offset by creditor days at 237 days as on March 31, 2021 (provisional). The creditors days are elevated on account of presence of payables towards subcontractors of amount Rs.67.75 Cr due to major work given as subcontracting in the month of Match'21. However, the adjusted creditors days (excluding the payables towards the subcontracting) stands at 96 days as on March 31, 2021 (provisional). The moderate GCA cycle has led to high utilization of around 81.00 per cent of consolidated working capital requirement bank lines of Rs.385.91 Cr over the past 12 months ending October, 2021. However, PCPPL to support its improving scale of operations backed by unexecuted order book position of about Rs. 2,433.65 Cr and in process of sanction of additional working capital limits for both general and project specific purpose with multiple banking institutions and has submitted proposals for the same. The company has received sanction from the lead bank and In-principle clearance from other banks for general lines and received sanction for project specific lines. Acuité believes that the operations of the PCPPL will remain moderately working capital intensive on account of continuous submission of security deposits and retention money and the nature of civil infrastructure industry. However, the additional limits are expected to support the incremental working capital management with ease in medium term.

- **Presence of moderate geographical concentration risk in the revenue profile**

PCPPL has executed orders across the state of Tamil Nadu, Kerala, Karnataka and Andhra Pradesh in the past financial years. PCPPL also has executed contracts for Government of India (GOI) in Sri Lanka. It can be observed that the contribution from a single state (i.e. Tamil Nadu) is nearly 90 per cent in a given financial year, thereby, leading to significant geographical concentration risk. Acuité believes that PCPPL's revenue profile is subjected to moderate geographical concentration risk which is expected to remain over the medium term too and is a key monitorable factor. This risk is mitigated to an extent as PCPPL undertakes orders which are funded by budget allocation to state/central government, development agencies such as World Bank, JICA, OFID, Asian Development Bank, NABARD or consortium of bankers. This ensures consistency in revenues and receivables along with better operating margins. In addition, the company is able to secure works around Rs. 2,500 Crore over the past three years despite of COVID-19 pandemic or change of governments which reflects the execution capability and delivery of projects by PCPPL.

- **Delays in work order execution, extensions undertaken from the authorities**

PCPPL has an unexecuted order book position of approx. Rs.2433.65 Cr; estimated to be executed over the near term. The outstanding order book is 3.89x of the FY2021 revenue of Rs.625.57 Cr (provisional). Out of the unexecuted order book, Rs.797.68 Cr worth of work order is past the due date of completion. The work-in-progress of the projects was impacted on account of Covid-19 pandemic, monsoons and other disruption in operations. The management has received the extension from the respective authorities and the pending work is to be executed in near term and has resulted in locking of its working capital limits for more than expected time and may result in cost overrun including additional finance cost. Acuité believes that the company's business profile and financial profile can be impacted on account of any such delays in the execution of the projects.

- **Susceptibility to tender-based operations**

Revenue and profitability depend entirely on the ability to win tenders. Entities in this segment face intense competition, thus requiring them to bid aggressively to procure contracts; this restricts the operating margin to a moderate level. Also, given the cyclicality inherent in the construction industry, the ability to maintain profitability margin through operating efficiency becomes critical. Acuité believes that the company's business profile and financial profile can be adversely impacted on account of presence of stiff competition, and has inherent risk of susceptibility to tender based operations. PCPPL's success rate in winning the bid for the tender has been around 10 per cent over the years. In the on-going FY2022, PCPPL has received a single new work order. However, the order is from Chennai Kanyakumari Industrial Corridor Project for upgrading of State Highway 86 with an order value of Rs.446.42 Cr.

## ESG Factors Relevant for Rating

The infrastructure development industry has a significant social impact as it is a labour intensive business. Social issues significant for the industry are community support and development, employee safety and human rights. Governance issues relevant include board and management compensation, shareholder's rights and board diversity. The extent of direct or indirect emissions and the efficiency of deployment of vehicle fleets and heavy machinery has a considerable impact in the environmental performance of this industry. Since material costs are relatively high, strategies should be in place to reduce wastages and recycle raw materials to the extent possible to minimize the environmental impact.

PCPPL, a close family owned business, undertakes civil construction activities primarily that of Roads, Highways, Buildings, Irrigation, Water supply and sewage/effluent treatment segments thereby contributing towards the infrastructure development in the economy. PCPPL's board comprise of 4 directors with no female director and independent director. PCPPL has established a vigil mechanism for Directors and employees to report concerns about ethical behavior, actual or suspected fraud or violation of the company's code of conduct or ethics. The company has also setup Internal Complaints Committee (ICC).

Under its Corporate Social Responsibility (CSR) activity, the company has contributed towards Corona relief fund, Education of poor students and towards Clean Erode initiative for environmental restoration. The contribution towards CSR activity has improved and stood at Rs.65.78 Lakhs in FY2021 (Prov) as against Rs.33.45 Lakhs in previous year.

## Rating Sensitivities

Positive

- Timely execution of its order book leading to substantial improvement in scale of operations while maintaining profitability margins over the medium term.
- Sustainable improvement in Profitability, Leverage and Solvency position of the company.

Negative

- Any deterioration in working capital cycle and liquidity profile of the company.
- Any deterioration in Revenue profile and leverage position of the company.
- Any weakening of financial risk profile of the company.
- Any significant delays in work order execution
- Any significant delays in disbursement of the additional working capital limits

## Material covenants

None

## Liquidity Position: Adequate

PCPPL's liquidity is adequate marked by healthy generation of net cash accruals in FY2021 to its maturing debt obligations. PCPPL has generated cash accruals in the range of Rs.18.27-41.76 Cr during last three years ending FY2021(Prov) as against its long term debt obligations of Rs.4.47-4.67 Cr for the same period. PCPPL has generated NCA of Rs.41.76 Cr in FY2021(Prov) against debt obligation of Rs.4.53 Cr. The company is expected to generate adequate NCAs in the range of Rs.48.90-65.74 Cr. against modest CPLTD of Rs.6.54-Rs.9.08 Cr over the medium term. The company's working capital is moderate as evident from Gross Current Asset (GCA) of 165 days as on March, 2021(Prov) as compared to 201 days as on March, 2020. Improvement in GCA days are driven by marginal improvement in the inventory days of 28 days as of FY2021 (Prov) against 43 days in FY2020, respectively. The fund based limit remained highly utilized at an average of nearly 91.00 per cent for the 12 months ending October, 2021. The non-fund based limit remained moderately utilized at an average of nearly 78.20 per cent for the 12 months ending October, 2021. Overall, the consolidated working capital limits of Rs.385.91 were utilized at an average of nearly 81.00 per cent for the 12 months ending October, 2021. The bank guarantees (BG) extended by the PCPPL with various authorities are expected to be released in a phased order and timely release of BGs by the respective authorities will be critical parameter for bidding towards new work orders in medium term. PCPPL had moderate level of unencumbered cash and bank balance of Rs.11.41 Cr and its current ratio stood at 1.45 times as on March 31, 2021 (Prov) against 1.67 times in previous year. The marginal decline in current ratio during the period is on account of significant increase in trade payables of Rs.113.65 Cr against Rs.69.40 Cr in previous year. PCPPL has maintained term deposits of Rs.43.37 Cr with the Bank as margin money. The company has also maintained security deposit of Rs.38.71 Cr for collateral and Bank Guarantee. Acuité believes that the liquidity of the company is likely to improve over the medium term on account of healthy order book and increasing scale of operations and sanction of new working capital limits from the respective banking institutions of nearly Rs.181.50 Cr for both general and project specific requirements. PCPPL is in process of being sanctioned general working capital lines of Rs.350.00 Cr through a consortium of multiple banks. This consortium will be taking over the existing limits. The company has secured sanction from the lead bank and In-principle clearance from other banks for general lines and received in excess of the proposed limits. However, timely collection of payment, sanction and disbursement of additional banking facilities to cater the working capital requirements will be key monitorable over the medium term for the assessment of liquidity position of the company.

## Outlook: Stable

Acuité believes that PCPPL will continue to benefit over the medium to long term on account of long track record of operations, experienced management in the industry and healthy unexecuted order book. The outlook may be revised to 'Positive', in case of timely execution of its unexecuted order book leading to higher-than-expected revenues and profitability with improvement in financial risk profile. Conversely, the outlook may be revised to 'Negative' in case PCPPL registers lower-than-expected revenues and profitability or any significant stretchin its working capital management or larger-than-expected debt- funded capitalexpenditure leading to deterioration of its financial risk profile and liquidity.

## Other Factors affecting Rating

None

## Key Financials

| Particulars | Unit | FY 21 (Provisional) | FY 20 (Actual) |
|---|---|---|---|
| Operating Income | Rs. Cr. | 625.57 | 503.68 |
| PAT | Rs. Cr. | 34.95 | 26.33 |
| PAT Margin | (%) | 5.59 | 5.23 |
| Total Debt/Tangible Net Worth | Times | 0.64 | 0.61 |
| PBDIT/Interest | Times | 3.61 | 3.27 |

## 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
- Rating Process and Timeline: https://www.acuite.in/view-rating-criteria-67.htm
- Service Sector: https://www.acuite.in/view-rating-criteria-50.htm
- Infrastructure Sector: https://www.acuite.in/view-rating-criteria-51.htm
- Application Of 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:

Not Applicable

## Annexure - Details of instruments rated

| Lender's Name | ISIN | Facilities | Date Of Issuance | Coupon Rate | Maturity Date | Quantum (Rs. Cr.) | Rating |
|---|---|---|---|---|---|---|---|
| Indian Overseas Bank | Not Applicable | Bank Guarantee (BLR) | Not Applicable | Not Applicable | Not Applicable | 140.00 | ACUITE A2 \| Assigned |
| Indian Overseas Bank | Not Applicable | Bank Guarantee (BLR) | Not Applicable | Not Applicable | Not Applicable | 27.95 | ACUITE A2 \| Assigned |
| Karur Vysya Bank | Not Applicable | Bank Guarantee (BLR) | Not Applicable | Not Applicable | Not Applicable | 80.00 | ACUITE A2 \| Assigned |
| Catholic Syrian Bank | Not Applicable | Bank Guarantee (BLR) | Not Applicable | Not Applicable | Not Applicable | 15.00 | ACUITE A2 \| Assigned |
| HDFC Bank Ltd | Not Applicable | Bank Guarantee (BLR) | Not Applicable | Not Applicable | Not Applicable | 33.65 | ACUITE A2 \| Assigned |
| ICICI Bank Ltd | Not Applicable | Bank Guarantee (BLR) | Not Applicable | Not Applicable | Not Applicable | 28.00 | ACUITE A2 \| Assigned |
| Indian Overseas Bank | Not Applicable | Cash Credit | Not Applicable | Not Applicable | Not Applicable | 25.00 | ACUITE BBB+ \| Stable \| Assigned |
| Karur Vysya Bank | Not Applicable | Cash Credit | Not Applicable | Not Applicable | Not Applicable | 20.00 | ACUITE BBB+ \| Stable \| Assigned |
| ICICI Bank Ltd | Not Applicable | Cash Credit | Not Applicable | Not Applicable | Not Applicable | 14.00 | ACUITE BBB+ \| Stable \| Assigned |
| HDFC Bank Ltd | Not Applicable | Cash Credit | Not Applicable | Not Applicable | Not Applicable | 3.00 | ACUITE BBB+ \| Stable \| Assigned |
| Indian Overseas Bank | Not Applicable | Overdraft | Not Applicable | Not Applicable | Not Applicable | 35.00 | ACUITE BBB+ \| Stable \| Assigned |
| Catholic Syrian Bank | Not Applicable | Overdraft | Not Applicable | Not Applicable | Not Applicable | 10.00 | ACUITE BBB+ \| Stable \| Assigned |
| Kotak Mahindra Bank | Not Applicable | Proposed Bank Guarantee | Not Applicable | Not Applicable | Not Applicable | 20.00 | ACUITE A2 \| Assigned |
| Not Applicable | Not Applicable | Proposed Bank Guarantee | Not Applicable | Not Applicable | Not Applicable | 70.00 | ACUITE A2 \| Assigned |
| Not Applicable | Not Applicable | Proposed Cash Credit | Not Applicable | Not Applicable | Not Applicable | 40.00 | ACUITE BBB+ \| Stable \| Assigned |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Kotak Mahindra Bank | Not Applicable | Proposed Cash Credit | Not Applicable | Not Applicable | Not Applicable | 9.50 | ACUITE BBB+ \| Stable \| Assigned |
| Indian Overseas Bank | Not Applicable | Working Capital Term Loan | 01-11-2021 | 8.45 | 01-11-2025 | 11.70 | ACUITE BBB+ \| Stable \| Assigned |
| Karur Vysya Bank | Not Applicable | Working Capital Term Loan | 01-11-2021 | 8.20 | 01-11-2025 | 3.94 | ACUITE BBB+ \| Stable \| Assigned |

*Indian Overseas Bank's Bank Guarantee facility consists of Letter of Credit as sublimit of Rs.40.00 Cr*
*Karur Vysya Bank's Bank Guarantee facility consists of Letter of Credit as sublimit of Rs.20.00 Cr*
*HDFC Bank's Bank Guarantee facility consists of Letter of Credit as sublimit of Rs.11.12 Cr*

## Contacts

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**About Acuité Ratings & Research**

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