April 17, 2023

PSK Infrastructures and Projects Private Limited: Rating downgraded to [ICRA]BBB; outlook revised to Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based/ CC	28.25	33.00	[ICRA]BBB; Downgraded from [ICRA]BBB+; Outlook revised to Negative from Stable
Long-term – Non-fund Based	171.75	184.00	
Long-term – Unallocated	25.00	8.00	
Total	**225.00**	**225.00**	

**Instrument details are provided in Annexure I*

Rationale

The rating downgrade and revision in outlook to Negative factors in PSK Infrastructures and Projects Private Limited's (PSK) increased exposure to build-operate-transfer (BOT) projects, with the company receiving three hybrid annuity mode (HAM) projects with a total bid project cost (BPC) value of Rs. 1,927.42 crore. These projects entail sizeable equity investment of Rs. 333.79 crore over FY2024-FY2026, which will pressurise its free cash flows and liquidity position in the interim. In addition, PSK is executing a HAM project under Korlam Kantakapalle Expressway Private Limited (KKEPL) and has equity commitment of Rs. 121.06 crore towards the same. It has infused Rs. 90 crore as on February 28, 2023 and the balance is expected to be infused in FY2024. The company has a pending equity commitment of Rs. 364.8 crore (FY2024 – Rs. 197.9 crore, FY2025 – Rs. 66.8 crore and FY2026 – Rs. 100.1 crore) for the four HAM projects and the long-term funding sources are insufficient resulting in an asset-liability mismatch. The promoters plan to raise long-term capital for equity infusion in HAM projects through monetisation of assets (proceeds from selling a property for Rs. 70 crore in FY2024) and through fund infusion of Rs. 60 crore by promoters (Rs. 20 crore in FY2025 and Rs.40 in FY2026). Timely financial closure of debt requirement for its special purpose vehicle (SPVs), along with fund mobilisation for equity commitment in line with the lenders' requirement remains critical and a key rating sensitivity in the near to medium term. The company's ability to correct the asset-liability mismatch, on a sustained basis, would be a key rating monitorable. Further, achievement of financial closure for these recently received HAM projects, along with timely mobilisation of equity commitments, remains a key rating monitorable in the near term. The rating is also constrained by the modest ROCE levels over the years owing to low operating profitability margins at around 6-7% levels.

The rating, however, factors in the improved scale of operations with its operating income (OI) increasing to more than Rs. 550 crore in FY2023 against Rs. 290 crore in FY2022 on the back of improved order execution, driven largely by revenue contribution from KKEPL's project execution. It is expected to generate revenues of more than Rs. 700 crore in FY2024, supported by an adequate order book position of Rs. 2,747.5 crore translating to order book to operating income (OB/OI) ratio of ~4.8 times, which provides medium-term revenue visibility. ICRA notes the company's established track record in executing road projects over the years.

Key rating drivers and their description

Credit strengths

Healthy growth in scale of operations – PSK's scale of operations improved with its OI increasing to more than Rs. 550 crore in FY2023 from Rs. 290 crore in FY2022, which is supported primarily by KKEPL's project execution. The company is expected to generate revenues of more than Rs. 700 crore in FY2024, driven by execution of the HAM projects.

Adequate order book position providing medium-term revenue visibility – PSK has an order book of Rs. 2,747.5 crore as on March 31, 2023 owing to addition of engineering, procurement, and construction (EPC) works of three HAM projects, translating to OB/OI ratio of ~4.8 times, which provides medium-term revenue visibility.

Credit challenges

Equity mobilisation risks for the recently won HAM project – The company has sizeable equity commitment of Rs. 121.06 crore towards the HAM SPV (KKEPL), wherein it has already infused Rs. 90 crore as on February 28, 2023 with the balance ~Rs. 30 crore expected to be infused in FY2024. It has received three HAM projects with a total BPC value of Rs. 1,927.42 crore, which entails equity investment of Rs. 333.79 crore over FY2024-FY2026 (Rs. 166.89 crore in FY2023, Rs. 66.76 crore in FY2024 and Rs. 100.13 crore in FY2026). Further, achievement of financial closure for these recently received HAM projects remains a key rating monitorable in the near term.

Sizeable investments in BOT projects resulting in asset liability mismatch – PSK is the sponsor of four under-construction BOT projects and invested ~Rs. 90 crore as on February 28, 2023. The company has total equity commitment of Rs. 456 crore during FY2024-FY2026, whereas its long-term funding sources are insufficient resulting in an asset-liability mismatch. Since its projected cash flows are insufficient for the equity requirement, the promoters plan to raise capital for equity commitment in HAMs through monetisation of assets and infuse unsecured loans, thereby elevating the equity mobilisation risks and pressurising its liquidity position in the interim. Further, its ability to correct asset-liability mismatch, on a sustained basis, would be a key rating monitorable.

Modest return indicators – The operating margins have been low at around 5-7% levels over the past three years and is expected to remain in the similar levels in the medium term. The ROCE remained weak at 5.07% for FY2022 due to thin profitability levels. Given its sizeable investment plans in the HAM SPV, which is unlikely to generate dividends in the near term, the overall return indicators are anticipated to remain supressed in the near to medium term.

Liquidity position: Stretched

PSK's liquidity position is stretched owing to sizeable equity commitments of ~Rs. 197.89 crore towards four HAM projects, debt repayment of Rs. 13-14 crore, and capex plans of Rs. 10.0 crore in FY2024, whereas its cash flows are insufficient for meeting the same. Its ability to timely raise the balance equity through monetisation of assets and fund infusion by the promoters remains important from the liquidity perspective.

Rating sensitivities

Positive factors – Given the Negative outlook, the rating is unlikely to get upgraded in the near term. However, ICRA could revise the outlook to Stable if the company achieves the financial closure while complying with equity infusion requirement as per the lenders in a timely manner. Further, healthy improvement in its scale of operations, while improving its profitability margins and the liquidity position, are likely to support the outlook change.

Negative factors – Pressure on PSK's rating could arise if there is any delay in equity mobilisation or financial closure. Further, a material decline in earnings impacting the company's liquidity position, increase in leverage or a further increase in equity commitments towards HAM projects would be negative trigger.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology](#) [Rating Methodology for Construction Entities](#) [Rating Methodology - Consolidation](#)
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the rating, ICRA has consolidated the financials of PSK and its subsidiaries – KKEPL, PSK Nandikotkur Expressways Private Limited, PSK Atmakur Expressways Private Limited, PSK Chandikhole Expressways Private Limited.

About the company

PSK Infrastructures & Projects Private Limited (PSK) was started as a proprietorship concern in 1979 and was converted into a private limited company in April 2013. The company is promoted by Mr. P. Sudhakar and his family members. It was earlier involved in execution of irrigation projects for the Andhra Pradesh Government. From 2000, PSK started executing road projects, besides irrigation projects. From 2005, it shifted focus completely towards execution of road projects. The scope of work includes construction of four-lane road, strengthening or road widening and upgrading of four-lane roads to six-lane roads, overlaying work, special repair works, which includes relaying and re-carpeting of the roads and is carried out every five years. Further, it has diversified into irrigation projects since FY2016.

Key financial indicators

	FY2021	FY2022
Operating income	399.62	290.46
PAT (Rs. crore)	6.65	5.86
OPBDIT/OI (%)	5.66%	7.44%
PAT/OI (%)	1.66%	2.02%
Total outside liabilities/Tangible net worth (times)	0.63	0.93
Total debt/OPBDIT (times)	1.45	2.31
Interest coverage (times)	5.91	8.18

Source: Annual report; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					April 17, 2023	Mar 11, 2022	Feb 25, 2021	Dec 27, 2019
1	**Fund-based / CC**	Long-term	33.0	--	[ICRA]BBB (Negative)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
2	**Non-fund based**	Long-term	184.0	--	[ICRA]BBB (Negative)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
3	**Unallocated limits**	Long-term	8.0	--	[ICRA]BBB (Negative)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)

Complexity level of the rated instrument

Instrument	Complexity Indicator
Fund-based /CC	Simple
Non-fund based	Simple
Unallocated limits	Not applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Fund-based – Cash Credit**	NA	NA	NA	33.0	[ICRA]BBB (Negative)
NA	**Non-fund based**	NA	NA	NA	184.0	[ICRA]BBB (Negative)
NA	**Unallocated limits**	NA	NA	NA	8.0	[ICRA]BBB (Negative)

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Korlam Kantakapalle Expressway Private Limited	100%	Full Consolidation
PSK NANDIKOTKUR Expressways Private Limited	100%	Limited consolidation
PSK ATMAKUR Expressways Private Limited	100%	Limited consolidation
PSK CHANDIKHOLE Expressways Private Limited	100%	Limited consolidation

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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