

September 13, 2023

PRN Infratech Private Limited: Rating reaffirmed; 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	42.0	51.0	[ICRA]BBB reaffirmed; outlook revised to Negative from Stable
Long-term – Non-fund based – Bank guarantee	89.0	89.0	[ICRA]BBB reaffirmed; outlook revised to Negative from Stable
Long-term – Unallocated limits	15.0	6.0	[ICRA]BBB reaffirmed; outlook revised to Negative from Stable
Total	146.0	146.0	

*Instrument details are provided in Annexure I

Rationale

The revision in outlook to Negative reflects ICRA's expectations that the credit profile of PRN Infratech Private Limited's (PRNI) will weaken in the backdrop of pressure on its cash flows and moderation in leverage metrics. Its operations are working capital intensive in nature, which coupled with the recent delay in receipt of payments for Karnataka projects resulted in increased utilisation of working capital limits at 90% of limits for Q1 FY2024. While ICRA expects the recovery of receivables from Karnataka projects, the timely realisation of payments from the authorities remains a key rating monitorable. Further, sizeable withdrawals of ~Rs. 20 crore in FY2023 towards Group investments has declined its net worth position. Also, at the time of conversion to a private limited company in May 2023, Rs. 40 crore was retained as share capital and the rest is accounted as unsecured loans in its books, leading to an increase in leverage as reflected by TOL/TNW to more than 2 times for FY2024. The rating is also constrained by its modest scale of operations, which declined to Rs. 228.7 crore in FY2023 from Rs. 264.9 crore in FY2022 on account of cancellation of few projects in FY2023. In addition, the geographical and customer concentration risks continue to remain high, with orders largely from Goa and Karnataka together accounting for 97% of the order book and the top three customers constituting 78% of the order book as on March 31, 2023. Further, it has high segmental and project concentration, as the company is focused on layout and water works and top five orders contributing to 90% of the outstanding order book as on March 31, 2023.

The rating, however, favourably factors in the established track record of operations in the civil construction business in Karnataka, Goa, and Maharashtra and PRNI's reputed clientele, which largely includes state government departments mitigating the counterparty credit risk to an extent. Although the order book improved to Rs. 508.55 crore as on March 31, 2023 from Rs. 179 crore as on March 31, 2022, the company's ability to execute the projects and realise payments remains a key monitorable. The rating considers PRNI's satisfactory financial risk profile, with healthy operating profitability margins of above 14% and interest cover of 3.1 times for FY2023, which is expected sustain going forward.

The Negative outlook reflects increase in cash conversion cycle due to a delay in payments from the customers and consequent adverse impact on the company's liquidity position.

Key rating drivers and their description

Credit strengths

Established track record of operations in civil construction business – PRNI has an established track record of over two decades in executing infrastructure-related projects like building and repairing of roads, bridges, dams, railway lines, irrigation canals, layouts, etc.

Reputed client profile – PRNI generates most of its revenue from Government contracts floated by Karnataka, Goa, and Maharashtra, with major portion of its income generated from Karnataka. Its clientele includes Water Resource Department of Goa, Karnataka Neeravari Nigama Limited (KNNL), Karnataka Industrial Area Development Board (KIADB), accounting for 80% of the outstanding order book as on March 31, 2023. Given that majority of the revenues are derived from Government departments, the counterparty credit risk is low.

Satisfactory financial risk profile – PRNI reported healthy operating margins of 14.8% in FY2023, aided by utilisation of own machinery, which is expected to sustain going forward. Its debt levels remained moderate at Rs. 53.94 crore as on March 31, 2023, largely comprising working capital and equipment loans. The interest coverage ratio is moderate at 3.1 times and is expected to improve on the back of lower interest expenses.

Credit challenges

Working capital-intensive operations – PRNI's operations are working capital intensive in nature due to an elongated verification cycle, owing to delays in final verification and clearance by the authorities and payments depending on the fund availability and budget allocation of the respective state governments. Given the delay in receipt of payments for projects in Karnataka in the current year, the company had higher dependence on working capital borrowings as reflected in 90% of utilisation in Q1 FY2024 against 55% in H2 FY2023. It has received an enhancement in working capital limits, which supports its funding requirements in the near term. However, PRNI's ability to improve the cash conversion cycle remains a key rating monitorable.

High geographical and client concentration – PRNI primarily has regional presence with operations limited to Karnataka (46% of order book share) and Goa (51% of order book share). Further, the client concentration risk is high with the top three customers accounting for 78% of the order book as on March 31, 2023. The company has high segmental and project concentration, as it is focused on layout and water works and top five orders contributed to 90% of the outstanding order book as on March 31, 2023.

Exposed to intense competition which keeps margins under check – The civil construction segment is characterised by intense competition due to low complexity of work involved, as well as low entry barriers in terms of qualifications required for the tenders floated. This results in a large number of contractors leading to intensely competitive bids, putting pressure on the margins. Further, the margin is exposed to volatile raw material prices, although the built-in price variation clause in the contracts mitigates the risk to an extent.

Liquidity position: Stretched

The liquidity position is stretched, with high average utilisation of working capital limits in Q1 FY2024 and low free cash balances. The company has repayments of Rs. 9.72 crore for FY2024. The liquidity is likely to be supported by an expected enhancement in working capital limits and absence of any major capex plans in the medium term. However, meaningful improvement in the cash conversion cycle remains critical for improving its liquidity position.

Rating sensitivities

Positive factor – Given the Negative outlook, the rating is unlikely to get upgraded in the near term. However, ICRA could revise the outlook to Stable if there is an improvement in the working capital cycle and liquidity position on a sustained basis.

Negative factor – Pressure on PRNI's rating could arise if there is a decline in order inflow, which adversely affects scale or profitability margins, or any large debt-funded capex that weakens the debt coverage metrics and liquidity position. A specific credit metric for a downgrade could be if TOL/TNW increasing beyond 2.0 times, on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Construction Entities
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

PRN Infratech Private Limited (erstwhile PRN Infratech), run by Mr. P. R. Nayak and his family members. It is a Class-A contractor for the Public Works Department (PWD) and is involved in infrastructure development, such as construction of roads, irrigational canals, dams, and bridges, with road construction being its major focus area. The partnership firm was founded in June 1995 and has been reconstituted as PRN Infratech Private Limited on May 02, 2023.

Key financial indicators

	FY2021	FY2022	FY2023*
Operating income	245.2	264.9	228.7
PAT	16.9	18.5	13.6
OPBDIT/OI	13.6%	13.8%	14.8%
PAT/OI	6.9%	7.0%	5.9%
Total outside liabilities/Tangible net worth (times)	1.5	1.7	1.8
Total debt/OPBDIT (times)	1.3	1.8	1.6
Interest coverage (times)	4.4	4.1	3.1

Source: ICRA Research, Company

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

*Provisional financials

Status of non-cooperation with previous CRA: PRNI was put under the issuer non-cooperating category by India Ratings and Research, vide PR dated July 24, 2023.

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as on July 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Sep 13, 2023	June 30, 2022	March 10, 2021	June 26, 2020
1 Cash credit	Long term	51.0	NA	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable) ISSUER NOT COOPERATING, Withdrawn
2 Bank guarantee	Long term	89.0	NA	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable) ISSUER NOT COOPERATING, Withdrawn
3 Unallocated limits	Long term	6.0	NA	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based/ CC	Simple
Long-term – Non-fund based – Bank guarantee	Very Simple
Unallocated limits	NA

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	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash credit	NA	NA	NA	51.0	[ICRA]BBB (Negative)
NA	Bank guarantee	NA	NA	NA	89.0	[ICRA] BBB (Negative)
NA	Unallocated limits	NA	NA	NA	6.0	[ICRA] BBB (Negative)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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Branches



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