

November 30, 2023

## Patel Engineering Limited : Rating reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term - Fund based facilities	260.00	260.00	[ICRA]BBB (Stable); reaffirmed
<b>Total</b>	<b>260.00</b>	<b>260.00</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The reaffirmation of the rating of Patel Engineering Limited (PEL) favourably factors in the strong order book position with an order book to OI ratio of 5.2 times of FY2023, which provides medium-term revenue visibility. PEL has witnessed healthy order inflows of Rs. 10,543 crore (including escalations in FY2023 and H1 FY2024) in the last 18 months. The rating favourably factors in PEL's diversified order book across segments, geography and clientele. PEL is one of the largest engineering companies in hydropower sector. The rating also draws comfort from the long track record of PEL's operations of over seven decades, supported by an experienced management and demonstrated capabilities in executing relatively complex hydro and tunnelling projects.

Notwithstanding the sequential improvement in coverage metrics in FY2023, the coverage metrics continues to remain modest with debt service coverage ratio remaining close to 1.0 times in the medium term. The rating is also constrained by PEL's elongated working capital cycle, primarily due to sizeable receivables/work in progress being stuck in arbitration or under claims pending with the clients, resulting in high net working capital intensity<sup>1</sup> of 48% as on March 31, 2023. The company has been able to manage the working capital requirements mainly by getting extended credit period from its suppliers/sub-contractors and availing mobilisation advances from clients. This has resulted in relatively higher TOL/TNW, which stood at 1.9 times as on March 31, 2023 and is expected to remain at similar levels in the near term. Going forward, any material deterioration in the working capital cycle can impact PEL's liquidity position/credit profile and will be a key rating sensitivity.

The ratings factor-in the company's exposure to sizeable contingent liabilities in the form of BGs, mainly for contractual performance, mobilisation advance and security deposits. The rating is also constrained by execution risks as about 68% of the order book as on September 30, 2023 is in preliminary/early stage of execution with less than 25% progress. Of this 18% of the order book is yet to commence as majority of these projects have awarded in H1FY2024. Notwithstanding PEL's strong execution capabilities, any sizeable invocation of performance guarantees would affect the company's liquidity and financial risk profile. ICRA has also taken note of reduction in corporate guaranteed debt to Rs.43.3 crore as on September 30, 2023 from Rs. 493 crore as on March 31, 2022 with dilution in stake in Raichur Sholapur Transmission Co. Ltd., Michigan Engineers Pvt Ltd, and sale of mall in Bellona Estate Developers Ltd.

ICRA has taken note of the equity infusion of Rs. 313.3 crore through rights issue and asset monetisation<sup>2</sup> of Rs. 224 crore during FY2023 has helped the company to improve its liquidity position with unencumbered cash and bank balance of ~Rs. 200 crore as of September 30, 2023. While the company's operating margin is expected to remain healthy at around 13-15% in the near to medium term, the coverage indicators are likely to remain modest on account of a leveraged capital structure.

<sup>1</sup> Net working capital (current assets minus current liabilities)/Operating Income

<sup>2</sup> Includes land and awards realisation

ICRA has noted that PEL has sizeable claims awarded by arbitration tribunal/courts but pending in higher courts which can be realised in the interim by providing BGs or through Vivad se Vishwas II (Contractual Disputes) scheme. ICRA notes that there have been instances of reversal of certain awards in the past by Supreme Court and the risks associated with any future reversal continue to remain.

The Stable outlook reflects ICRA's opinion that the company will continue to benefit from its healthy order book position, and strong execution capabilities.

## Key rating drivers and their description

### Credit strengths

**Strong order book position provides healthy medium-term revenue visibility** – The company had a strong order book position of Rs. 19,822 crore as on September 30, 2023, which has grown at a CAGR of 14.18% over the last five-year period. PEL has witnessed healthy order inflows of Rs. 10,543 crore (including escalations in FY2023 and H1 FY2024) in the last 18 months. The OB/OI ratio stands comfortable at 5.2 times the construction income of FY2023, providing healthy medium-term revenue visibility. Timely commencement and execution of these orders is critical to sustain the revenue visibility, going forward.

**Diversified order book** - PEL's current outstanding order book is well-diversified in terms of geography with a pan-India presence, along with international operations in Nepal, across multiple segments such as hydroelectric power, irrigation, roads, real estate, tunnels & urban Infrastructure projects. The hydroelectric power segment forms 60% of the unexecuted order book as on September 30, 2023, given the company's technical expertise and lucrative operating margin in this segment. Further, the order book is fairly diversified in terms of projects and clients, with the top-three clients contributing 36% to the total unexecuted order book and the top 10 orders accounting for 63% of the unexecuted order book as on September 30, 2023.

**Established track record and extensive experience of management team in civil construction sector** – PEL has an established track record of operations of over seven decades, supported by an experienced management and demonstrated capabilities in executing relatively complex hydro and tunnelling projects at geographically diverse locations. The company has proven its execution capabilities by constructing large-value and technologically complex long-duration projects. The company has a fleet of well-maintained specialised equipment in its portfolio, a qualified and experienced senior management and technical collaborations, boosting its project execution capabilities.

### Credit challenges

**Modest coverage indicators** –Notwithstanding the sequential improvement in coverage metrics in FY2023, the coverage metrics continue to remain modest with debt service coverage ratio (DSCR) remaining close to 1.0 times in the medium term. The company plans to monetise some of its non-core assets to deleverage its capital structure and improve its liquidity position. Going forward, timely monetisation of the non-core assets and an improvement in the working capital intensity remain crucial to boost its financial performance and liquidity position.

**Elongated working capital cycle** – As a sizeable amount of receivables/work in progress is stuck in arbitration or under claims pending with the clients, PEL's working capital intensity has remained high with NWC/OI being 48% as on March 31, 2023. The company has been able to manage the working capital requirements mainly by getting extended credit period from its suppliers/sub-contractors and availing mobilisation advances from clients. This has resulted in relatively higher TOL/TNW, which stood at 1.9 times as on March 31, 2023 and is expected to remain at similar levels in the near term. Going forward, any material deterioration in the working capital cycle can impact PEL's liquidity position/credit profile and will be a key rating sensitivity.

**Execution risk as about half of order book is in early stages of execution** - PEL's revenue remains exposed to time and cost overrun risks, given the complex nature of the projects being executed; moreover, ~68% of the order book as on September

30, 2023 is in preliminary/early stage of execution with less than 25% progress. Of this 18% of the order book is yet to commence as majority of these projects have awarded in H1FY2024. Further, many of the projects of the outstanding order book as on September 30, 2023 have been extended beyond original schedule by client, which could result in cost escalations or penalties, impacting profitability. The presence of built-in price escalation clauses in most of the contracts acts as a mitigant. Notwithstanding PEL's strong execution capabilities, any sizeable invocation of performance guarantees (BG) would affect the company's liquidity and financial risk profile.

### Liquidity position: Adequate

The company had unencumbered cash and bank balance of Rs. 200 crore and unutilised working capital limits of Rs. 155 crore as on September 30, 2023. The company has a near-term debt obligation of Rs. 65.7 crore in H2 FY2024 and Rs. 186.9 crore in FY2025. Availability of BGs for release of retention money as well as access to mobilisation advances from projects in initial stages provide additional cushion. Timely realisation of claims, asset monetisation and improvement in the working capital intensity will remain crucial for the company to maintain its liquidity.

### Rating sensitivities

**Positive factors** – ICRA could upgrade the rating if the company demonstrates a significant improvement in its working capital intensity, debt coverage metrics and liquidity profile while maintaining its overall scale of operations and operating profitability.

**Negative factors** – Negative pressure on PEL's rating could arise if a lower-than-anticipated billing or a deterioration in operating profitability or working capital intensity impacts the company's liquidity or debt coverage metrics. Further, delay in realization from asset monetization or arbitration proceeds could impact the rating.

### Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Construction Entities Methodology</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	ICRA has fully consolidated PEL's subsidiaries. For all the joint ventures, ICRA has followed the proportionate method of consolidation. The list of all the subsidiaries/associates/JVs that are consolidated under the above-mentioned approach to arrive at the PEL's ratings are given in Annexure II.

### About the company

PEL, incorporated in 1949, is involved in the engineering and construction of infrastructure projects. The company constructs and develops diversified projects, including dams, tunnels, micro-tunnels, hydroelectric projects, irrigation projects, roads, bridges, railways, refineries, real estate and townships. It has completed over 87 dams, 40 hydroelectric projects, over 300 km of tunnelling projects, over 1200 km of roads and irrigation projects for more than 5.5 lakh acres of land. The PEL Group's principal business areas can be classified into four broad verticals: 1) engineering and construction (E&C), 2) asset ownership, 3) real estate and 4) technology and innovation. While the E&C vertical is undertaken by PEL, the rest of the activities are carried out through separate subsidiary companies. Apart from the pan-India presence, PEL has international operations in Nepal.

## Key financial indicators (audited)

PEL Consolidated	FY2022	FY2023	H1 FY2024*
Operating income	3,380.2	4,202.0	2,139.9
PAT	68.8	178.8	80.1
OPBDIT/OI	15.7%	14.9%	14.5%
PAT/OI	2.0%	4.3%	3.7%
Total outside liabilities/Tangible net worth (times)	2.4	1.9	1.9
Total debt/OPBDIT (times)	4.3	2.8	3.2
Interest coverage (times)	1.3	1.5	1.7

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

\*Results

## Status of non-cooperation with previous CRA: Not applicable

## 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 Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Nov 30, 2023	Aug 11, 2022	-	-
1 Fund-based working capital facilities	Long term	260.0	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-	-

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based	Simple

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	Fund Based Long term	-	-	-	260.00	[ICRA]BBB(Stable)

Source: Company

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

## Annexure II: List of entities considered for consolidated analysis

Company Name	PEL Ownership	Consolidation Approach
Energy Design Pvt. Ltd.	100.00%	Full Consolidation
Patel Engineering Inc.	100.00%	Full Consolidation
Patel Engineering (Mauritius) Ltd.	100.00%	Full Consolidation
Patel Engineering Singapore Pte. Ltd.	100.00%	Full Consolidation
Patel Engineering Infrastructure Ltd.	100.00%	Full Consolidation
Vismaya Constructions Pvt. Ltd.	100.00%	Full Consolidation
Friends Nirman Pvt. Ltd.	100.00%	Full Consolidation
Shreeanant Construction Pvt. Ltd.	100.00%	Full Consolidation
Patel Patron Pvt. Ltd.	100.00%	Full Consolidation
Bhooma Realities Pvt. Ltd.	100.00%	Full Consolidation
Pandora Infra Pvt. Ltd.	100.00%	Full Consolidation
Patel Engineering Lanka Pvt. Ltd.	100.00%	Full Consolidation
Shashvat Land Projects Pvt. Ltd.	100.00%	Full Consolidation
Dirang Energy Pvt. Ltd. (DEPL)	100.00%	Full Consolidation
West Kameng Energy Pvt. Ltd.	100.00%	Full Consolidation
Digin Hydro Power Pvt. Ltd.	100.00%	Full Consolidation
Meyong Hydro Power Pvt. Ltd.	100.00%	Full Consolidation
Saskang Rong Energy Pvt. Ltd.	100.00%	Full Consolidation
Hampus Infrastructure Pvt. Ltd.	100.00%	Full Consolidation
Apollo Buildwell Pvt. Ltd. (till February 16, 2022)	100.00%	Full Consolidation
Arsen Infra Pvt. Ltd.	100.00%	Full Consolidation
PBSR Developers Pvt. Ltd.	100.00%	Full Consolidation
Lucina Realtors Pvt. Ltd.	100.00%	Full Consolidation
Waterfront Developers Ltd.	100.00%	Full Consolidation
Patel KNR Infrastructures Ltd.	100.00%	Full Consolidation
Naulo Nepal Hydro Electric Pvt. Ltd. (Till February 22, 2022)	100.00%	Full Consolidation
Hera Realcon Pvt. Ltd.	97.30%	Full Consolidation
Patel Energy Ltd.	99.99%	Full Consolidation
Patel Michigan JV	10.00%	Proportionate Method
CICO Patel JV	99.90%	Proportionate Method
Patel SEW JV	60.00%	Proportionate Method
PATEL –KNR J.V.	50.00%	Proportionate Method
KNR – PATEL J.V.	49.00%	Proportionate Method
PATEL – SOMA J.V	50.00%	Proportionate Method
Patel – V Arks JV	65.00%	Proportionate Method
Patel VI JV	51.00%	Proportionate Method
Patel – Avantika – Deepika – BHEL	52.83%	Proportionate Method

Company Name	PEL Ownership	Consolidation Approach
Patel – V Arks – Precision	60.00%	Proportionate Method
Age Patel JV	49.00%	Proportionate Method
PEL - UEIPL JV	60.00%	Proportionate Method
PEL-PPCPL-HCPL JV	51.00%	Proportionate Method
Onycon Enterprises	60.00%	Proportionate Method
PEL-Gond JV	45.00%	Proportionate Method
HES Shuthaliya JV	45.00%	Proportionate Method
PEL-Parbati JV	52.00%	Proportionate Method
NEC-PEL- JV	45.00%	Proportionate Method
PEL – Ghodke	51.00%	Proportionate Method
PEL-ISC-PRATHMESH JV	50.00%	Proportionate Method
ISC Projects-PEL JV	49.00%	Proportionate Method
DK Joint Venture LLP	51.00%	Proportionate Method
PATEL-SA JV	75.00%	Proportionate Method
Era Patel Advance Kiran JV	47.06%	Proportionate Method
Patel APCO JV	50.00%	Proportionate Method
Era Patel Advance JV	30.00%	Proportionate Method
Patel – Siddhivinayak JV	51.00%	Proportionate Method
PATEL -CIVET-CHAITRA Micro(KA) JV	51.00%	Proportionate Method
PEL-RAMAN JV	35.00%	Proportionate Method
VPRPL - PEL JV	51.00%	Proportionate Method
Mokhabardi Micro Irrigation Project JV	51.00%	Proportionate Method
PEL-PC JV	80.00%	Proportionate Method

Source: Company

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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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### Branches



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