

Pan India Infraprojects Private Limited

February 04, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Loans	641.00	641.00	[ICRA]BB- (Negative); revised from [ICRA]BBB- (Negative)
Long-term, Unallocated Limits	559.00	559.00	[ICRA]BB-(Negative); revised from [ICRA]BBB- (Negative)
Total	1,200.00	1,200.00	

*Instrument details are provided in Annexure-1

Material Event

The share price of some Essel Group entities, primarily Zee Entertainment Enterprises Limited (ZEEL) and Dish TV India Limited (DTIL) witnessed a sharp correction on January 25, 2019 following a media article alleging its association with an entity being probed by the Serious Frauds Investigation Office (SFIO). The management has, however, categorically denied any association of the promoters or of the operating companies in the Group with the said entity.

Rating Action

ICRA has revised the long-term rating assigned to the Rs. 641.0-crore term loans and the Rs. 559.0-crore unallocated limits of Pan India Infraprojects Private Limited (PIIPL) to [ICRA]BB- (pronounced ICRA double B minus) from [ICRA]BBB- (pronounced ICRA triple B minus). The outlook on the rating is Negative.

Rationale

The rating revision factors in the reduced financial flexibility of the Essel Group promoters, following the recent decline in the share price of some of the key Group entities and continued high level of pledged shareholding—~60% of the promoters' shareholding across the listed entities¹ of the Essel Group was pledged as on December 31, 2018². This is expected to reduce promoter's group ability to support the operating entities. The Group, through Essel Infraprojects Limited (EIL), is in the process of raising additional funds by way of stake sale in its solar, transmission and certain road projects (with the company having finalised transactions for transmission projects). Receipt of proceeds from asset monetisation in a time-bound manner as well as improvement in financial flexibility of the Group are key rating sensitivities.

This reduced financial flexibility at the promoter level has further increased the refinancing risk for PIIPL, especially considering its moderate accruals (vis-a-vis debt repayments). As PIIPL is the nodal engineering, procurement and construction (EPC) agency for the infrastructure business of the Essel Group, it receives milestone-linked payments from

¹ Includes, ZEEL, DTIL, SITI Networks Limited (SNL), Zee Media Corporation Limited (ZMCL), Essel Propack Limited and Zee Learn Limited

² The Essel Group promoters have entered into an agreement with the lenders, wherein the latter agreed to not revoke pledges due to the event of default that occurred owing to the sharp decline in the share price of ZEEL and DTIL. As per the agreement, the lenders have drawn comfort from a speedy resolution through the strategic sale of upto 50% of the promoters' shareholding in ZEEL, in a time-bound manner. Furthermore, it has been agreed that the equity proceeds of the strategic sale will be first utilised towards the repayment of dues to the lenders

the respective under-construction project special purpose vehicles (SPVs). However, it extends advances to the sub-contractors. This has resulted in increased funding requirements for the company, which are primarily met by loan funds, fund infusion by the promoter / promoter entities and PIIPL's internal accruals. The company's cash accruals had weakened in FY2018 and are expected to remain moderate in the near term. In the backdrop of the aforementioned factors and PIIPL's significant repayments, the company remains exposed to increased refinancing risk.

The rating continues to factor in Group's focus on the infrastructure sector. The rating also takes into account the extensive experience of the key managerial and technical personnel in the infrastructure space.

Outlook: Negative

The Negative outlook factors in PIIPL's increased refinancing risks amid reduced financial flexibility of the Group and weakened liquidity position of EIL's SPVs, along with significant debt repayments over the medium term. Receipt of proceeds from asset monetisation in a time-bound manner and its deployment meeting PIIPL's funding requirements would be critical determinants of the company's liquidity position and would be the key rating sensitivities. The outlook may be revised to Stable if the asset monetisation facilitates timely improvement in the liquidity position of the company and the Group.

Key rating drivers

Credit strengths

Extensive experience of key managerial and technical personnel in various segments of infrastructure development -

The management has extensive experience in EPC projects across various segments, which include among others, road, power transmission, solar, waste management and water distribution. PIIPL has successfully executed a number of these projects. During FY2018, PIIPL executed Rs. 3,440.6 crore (growth of 137% over orders executed in FY2017) worth of orders spanning across segments including road, transmission and solar projects. The company has strong execution abilities and completed its Kundli Manesar Expressway project ahead of the scheduled commercial operations date (COD).

Credit challenges

Reduced financial flexibility of the Group- The ratings factor in the high likelihood of the promoter Group, the Essel Group, extending financial support to PIIPL. The financial flexibility of the Essel Group entities has, however, reduced following the recent sharp decline in the share price of some entities of the Essel Group and the high level of pledged shareholding across the listed entities of the Group. Through EIL, the Group is in the process of raising additional funds by way of stake sale in its solar, transmission and certain road projects (with the company having finalised transactions for transmission projects). Receipt of proceeds from asset monetisation in a time-bound manner as well as improvement in financial flexibility of the Group is a key rating sensitivity

Increased refinancing risks - As PIIPL is the nodal EPC agency for the infrastructure business of the Essel Group, it receives milestone-linked payments from its respective project SPVs. However, it extends advances to the sub-contractors. This has resulted in increased funding requirements for the company, which are partly met by loans and advances from the Group companies. In the backdrop of the reduced financial flexibility of the Group and PIIPL's significant debt repayment obligations, the refinancing risk for the company has increased further.

Weak cash accruals in FY2018 and FY2019 - The company's operating profit margin (OPM) moderated to 4.6% in FY2018 from 11.1% in FY2017 owing to the execution of low margin projects. This resulted in weakened accruals for the company in FY2018. Given the current order book, the cash accruals are expected to remain modest (vis-à-vis the debt repayments) in FY2019 as well.

Cash flows dependent on SPVs' ability to achieve financial closure for projects - PIPL derives its entire revenues from the execution of contracts awarded to its Group project-specific SPVs. Hence, its cash flows are highly dependent on the SPVs' ability to achieve financial closure for the projects in a timely manner. However, financial closure of most of its current order book under execution has been achieved.

Liquidity position

PIPL's liquidity position is stretched, with accruals being inadequate for its debt repayment obligations, necessitating additional funding support. The company's funding requirements in FY2018 were supported by the infusion of additional funds (Rs. 512.7 crore by the Group companies) as well as Rs. 345.0 crore of additional customer advances. With expected moderate accruals, the company is dependent on the completion of under construction projects to ensure final settlement of bills and timely inflow of funds from the promoter Group, if required, to meet its debt obligations.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Construction Entities
Parent / Group Support	The rating assigned to PIPL factors in the high likelihood of its promoter Group, the Essel Group, extending financial support to it out of its need to protect its reputation from the consequences of a Group entity's distress. There also exists a consistent track record of the Essel Group having extended timely financial support to PIPL in the past, whenever a need has arisen.
Consolidation / Standalone	The rating is based on the standalone financial profile of the company

About the company

Pan India Infraprojects Private Limited is a part of the Essel Group and functions as the nodal EPC agency for various projects undertaken by the Group. PIPL is involved in sectors like road, power transmission, solar, waste management, water distribution, etc. EIL, the Essel Group's holding company in the infrastructure segment, bids and executes projects through project-specific SPVs. These SPVs award the project management / execution contracts to PIPL, who in turn sub-contracts projects to various contractors.

The company was incorporated in 2000 as Pan India Infrastructures Private Limited (Pan India), a wholly-owned subsidiary of EIL, held entirely by Mr. Subhash Chandra and family. PIPL was formed in FY2013 when the erstwhile Pan India was merged with a Group company, Essel Sports Private Limited (ESPL). Subsequently, PIPL merged the operations of its wholly-owned subsidiary, Essel Urban Infrastructures Private Limited (EUIPL), with itself in FY2014. PIPL is currently held entirely by two entities that are directly or indirectly held by the Essel Group's promoters, Mr. Subhash Chandra and family.

For the 12-month period ended March 31, 2018, PIPL reported a profit after tax (PAT) of Rs. 6.0 crore on an operating income (OI) of Rs. 3,440.6 crore, as against a net loss of Rs. 54.1 crore on an OI of Rs. 1,454.3 crore for the 12-month period ended March 31, 2017.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	1,454.3	3,440.6
PAT (Rs. crore)	-54.1	6.0
OPBDIT/ OI	11.1%	4.6%
RoCE	3.0%	4.6%
Total Debt/ TNW (times)	0.8	1.0
Total Debt/ OPBDIT (times)	9.4	11.9
Interest Coverage (times)	1.0	1.1

Source: Pan India Infraprojects Private Limited

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

Instrument		Current Rating (FY2019)						Chronology of Rating History for The Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)*	Date & Rating				Date & Rating in FY2018	Date & Rating in FY2017
				February 2019	December 2018	October 2018	May 2018	November 2017	August 2016	July 2015
1	Term Loan-1	Long-term	400.0	338.5	[ICRA]BB-(Negative)	[ICRA]BBB-(Negative)	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2	Term Loan-2	Long-term	95.0	95.0	[ICRA]BB-(Negative)	[ICRA]BBB-(Negative)	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
3	Term Loan-3	Long-term	46.0	46.0	[ICRA]BB-(Negative)	[ICRA]BBB-(Negative)	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
4	Term Loan-4	Long-term	100.0	100.0	[ICRA]BB-(Negative)	[ICRA]BBB-(Negative)	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
5	Unallocated	Long-term	559.00	-	[ICRA]BB-(Negative)	[ICRA]BBB-(Negative)	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)

*As on March 31, 2018

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan-1	December 2017	One year MCLR+0.8%	FY2023	400.0	[ICRA]BB- (Negative)
NA	Term Loan-2	FY2016	One year MCLR+1.17%	FY2021	95.0	[ICRA]BB -(Negative)
NA	Term Loan-3	FY2016	One year MCLR+1.50%	FY2022	46.0	[ICRA]BB-(Negative)
NA	Term Loan-4	July 2016	One year MCLR+1.70%	FY2022	100.0	[ICRA]BB- (Negative)
NA	Unallocated Limits	NA	NA	NA	559.0	[ICRA]BB- (Negative)

Source: Pan India Infraprojects Private Limited

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