

September 08, 2020

PLR Projects Private Limited: Ratings downgraded to [ICRA]BBB-/A3; Outlook revised to Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based	83.00	88.00	[ICRA]BBB-(Negative); downgraded from [ICRA]BBB(Stable)
Non-fund Based	380.00	445.00	[ICRA]A3; downgraded from [ICRA]A3+
Unallocated	77.00	7.00	[ICRA]BBB-(Negative)/[ICRA]A3; downgraded from [ICRA]BBB(Stable)/[ICRA]A3+
Total	540.00	540.00	

*Instrument details are provided in Annexure-1

Rationale

The revision in ratings and the negative outlook take into account the significant elongation in the receivable cycle of PLR Projects Private Limited (PLR) from key large projects viz. Baswapur reservoir project, Kandukur project, etc. In addition to the build-up of receivables, the work-in-progress (WIP) of these projects also shot up significantly. As on July 31, 2020 the receivables along with WIP stood at Rs. 553 crore. Consequently, PLR's liquidity position has weakened considerably, which is reflected in the high average fund-based limit utilisation of 98% in the last seven months from January 2020 to July 2020. Timely recovery of the receivables will remain crucial from the credit perspective. The ratings are further constrained by the substantial debt-funded capex in the recent past to support the order execution. The shorter tenure of the equipment loans has further impacted the debt coverage indicators. PLR's high leverage and significant creditor funding led to high TOL/TNW of 3.5 times as on March 31, 2020. The ratings are also constrained by the likely impact of the Covid-19 pandemic on the gross billings of PLR in the near to medium term because of disruption in construction activities caused by partial labour availability and restricted working condition with the need to maintain social distancing. Further ratings also take into account the high investments in group companies amounting to Rs. 61.66 crore as on March 31, 2020. Adjusting for these investments from the net worth, the TOL/adjusted TNW stood at 4.7 times as on March 31, 2020. However, ICRA notes that no further support is envisaged going forward and a major portion of investments in JVs is expected to be recovered over the medium term. ICRA notes that the company opted for a moratorium on its debt obligations, for both term loan instalments and working capital interest payments from March to August 2020 as part of the COVID -19 Regulatory Package announced by the RBI. The ratings are also constrained by the project-concentration risk, with the top-five projects accounting for ~73% of the unexecuted order book and execution risks, with 48% of the current order book falling in 0-10% execution bracket and 37% of the order book yet to raise their first bill as on March 31, 2020. Hence, securing all the design and other approvals in a timely manner will be the key to achieve growth in revenues and profitability.

The ratings, however, draw comfort from PLR's healthy order book position of Rs. 4438.74 crore as on March 31, 2020, following robust order accretion in FY2020. The outstanding order book to operating income (of FY2020) ratio, at present, stands at 5.9 times, thereby providing medium-term revenue visibility. The ratings also favourably take into account PLR's healthy revenue growth, at a CAGR of 13%, over the last four years to Rs. 748.9 crore in FY2020 from Rs. 456.7 crore in FY2016 on the back of healthy order execution, mainly owing to the speedy execution of Telangana

drinking water supply projects. The ratings also take into account the company's established track record of operations of over three decades, supported by the experienced management with demonstrated capabilities across segments—OB removal, irrigation, roads and railways.

Key rating drivers and their description

Credit strengths

Adequate order book position – PLR's order book position is healthy, with an outstanding order value of Rs. 4438.74 crore as on March 31, 2020, following robust order accretion in FY2020. The outstanding order book to operating income (of FY2020) ratio, at present, stands at 5.9 times, thereby providing medium-term revenue visibility.

Established operational track record – The promoters have an established track record of operations of over three decades supported by the experienced management with demonstrated capabilities across segments – OB removal, irrigation, roads and railways.

Significant ramp up in billing over last four years – PLR's revenue grew at a CAGR of 13% over the last four years to Rs. 748.9 crore in FY2020 from Rs. 456.7 crore in FY2016 on the back of healthy order execution, owing to the speedy execution of Telangana drinking water supply projects.

Credit challenges

Increase in receivable days and stretched liquidity – The payment cycle of the company has significantly elongated from key projects viz. Baswapur reservoir project, Kandukur project, etc. In addition to the build-up of receivables, the WIP of these projects also shot up significantly. As on July 31, 2020 the receivables plus WIP stood at Rs. 553 crore. Consequently, PLR's liquidity position has weakened considerably, which is reflected in the high average fund-based limit utilisation of 98% in the last seven months from January 2020 to July 2020. Timely recovery of the receivables will remain critical from the credit perspective.

High overall indebtedness and investments in group companies – The company has incurred substantial debt-funded capex in the recent past to support the order execution. The shorter tenure of the equipment loans has further impacted the debt coverage indicators. PLR's high leverage and significant creditor funding led to high TOL/TNW of 3.5 times as on March 31, 2020. Further, on account of high investments in group companies amounting to Rs. 61.66 crore as on March 31, 2020, the TOL/adjusted TNW at 4.7 times as on March 31, 2020, adjusted for these investments from the net worth. However, ICRA notes that no further support is envisaged going forward and a major portion of investments in JVs is expected to be recouped into the system in the medium term.

Execution-related risks- The company faces execution risks as 48% of the current order book falls in 0-10% execution bracket, with 37% of the order book yet to raise their first bill as on March 31, 2020. Hence, securing all the design and other approvals in a timely manner will be the key to achieve growth in revenues and profitability.

High project concentration – The project concentration is high with the top-five orders accounting for ~73% of the outstanding order book as on March 31, 2020. Any slowdown in project execution may result in lower billing for the company.

Liquidity position: Stretched

The liquidity position of the company is stretched with average fund based utilization of 98% in the last seven months from January 2020 to July 2020. Further the debt repayment in FY2021 is estimated at Rs. 25.42 crore (after factoring in RBI granted moratorium), which can be met through estimated cash flow from operations. The capex for FY2021 is expected to be around Rs. 20 crore and is expected to be funded through equipment loans and internal accruals.

Rating sensitivities

Positive triggers – The crystallisation of scenarios for a rating upgrade is unlikely over the near term. However, outlook may be revised to Stable if there is significant improvement in the liquidity position with healthy cushion in FB limits and realisation of stuck payments from the Government of Telangana.

Negative triggers – Negative pressure on the ratings could arise if the execution is lower-than-expected, or there is an increase in the working capital cycle. The rating may also be downgraded if a prolonged delay in realisation of payments further stretches PLR's liquidity position. Further, any incremental support to group entities will be credit negative.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Construction Entities
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has used limited consolidation approach, under which only the proposed equity investments/funding commitments towards PLR Projects Zambia Ltd are considered.

About the company

Incorporated in 1980 and later constituted as a private limited company in 2006, PLR Projects Private Limited (PLR) is a construction company operating in mainly four sectors viz. OB removal/mining, irrigation, roads and railways. During 1995-96, the company diversified into mining works. The main clients for the company include Central Coalfields Limited (CCL), Telangana Drinking Water Supply Department and irrigation departments of Telangana and Andhra Pradesh. In 2011, PLR expanded its activities abroad and formulated PLR Projects Zambia Limited, which manufactures ferro alloys.

In FY2020, on a provisional basis, the company reported a net profit of Rs. 35.0 crore on an operating income of Rs. 748.9 crore compared to a net profit of Rs. 30.0 crore on an operating income of Rs. 731.9 crore in the previous year.

Key financial indicators

	FY2019	FY2020 [^]
Operating Income (Rs. crore)	731.9	748.9
PAT (Rs. crore)	30.0	35.0
OPBDIT/OI (%)	11.2%	11.9%
PAT/OI (%)	4.1%	4.7%
Total Outside Liabilities/Tangible Net Worth (times)	1.9	3.5
Total Debt/OPBDIT (times)	1.8	1.8
Interest Coverage (times)	3.6	3.9

Source: PLR Projects Private Limited; [^]Provisional financials

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)			Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Rating	FY2020	FY2019	FY2018
					8-Sep-2020	29-Jan-2020	02-Jan-2019	13-Oct-2017
1	Fund Based	Long Term	88.00	NA	[ICRA]BBB- (Negative)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2	Non Fund Based	Short Term	445.00	NA	[ICRA]A3	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+
3	Unallocated	Long Term/Short Term	7.00	NA	[ICRA]BBB- (Negative)/[ICRA]A3	[ICRA]BBB (Stable)/[ICRA]A3+	[ICRA]BBB (Stable)/[ICRA]A3+	[ICRA]BBB (Stable)/[ICRA]A3+

Amount in Rs. crore

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	Fund Based	NA	NA	NA	88.00	[ICRA]BBB- (Negative)
NA	Non Fund Based	NA	NA	NA	445.00	[ICRA]A3
NA	Unallocated	NA	NA	NA	7.00	[ICRA]BBB- (Negative) / [ICRA]A3

Source: PLR Projects Private Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
PLR Projects Zambia Limited	100%	Limited Consolidation

Source: PLR Projects Private Limited

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