

May 23, 2019

Uttar Pradesh Rajkiya Nirman Nigam Ltd.: Short term rating assigned at [ICRA]A3+; Long term rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund Based TL	2600.0	2380.0	[ICRA]BBB (Stable); reaffirmed
Long Term / Short Term - Unallocated	-	95.0	[ICRA]BBB (Stable); reaffirmed / [ICRA]A3+; assigned
Short Term - Non-Fund Based	-	125.0	[ICRA]A3+; assigned
Total	2600.0	2600.0	

*Instrument details are provided in Annexure-1

Rationale

The rating takes into account the strong operational and financial linkages of the Uttar Pradesh Rajkiya Nirman Nigam Ltd. (UPRNNL) with the State Government of Uttar Pradesh (GoUP). ICRA also notes the strategic importance of the entity as the primary agency for implementation of building infrastructure projects in the state. The rating also takes into account UPRNNL's scale of operations, its sizeable order book of over Rs. 10,000 crore at the end of December 2018 that provides medium-term revenue visibility, the strong clientele comprising departments of various state governments and Central Public Sector Enterprises.

The rating, however, is constrained by the execution risk for the ongoing projects, given the slow progress in many of these with approaching completion dates. Further, the ratings are constrained by the weak operating profitability and moderation of the financial risk profile on account the sizable new borrowing undertaken in FY2018. However, ICRA has noted that the servicing of the rated borrowing programme is to be done using the financial support from the GoUP as the debt raised¹ by UPRNNL has been extended to the Uttar Pradesh Public Works Department (UP-PWD). As per the current arrangement, UPRNNL is getting regular fund infusion from the GoUP to service the rated debt. Going forward, timely remittance of adequate funds from the GoUP will be the key rating sensitivity for UPRNNL.

Outlook: Stable

ICRA believes that the company will maintain its strong linkages and will receive timely financial support from the GoUP. The outlook may be revised to Positive if there is substantial improvement in its financial risk profile. The outlook may be revised to Negative if there is a weakening of its linkages with the state government, or deterioration in its financial risk profile.

¹ GoUP has also extended guarantee for the debt rated by ICRA

Key rating drivers

Credit strengths

Strong operational and financial linkages with GoUP - UPRNNL, which is owned by the GoUP, has strong operational and financial linkages with the latter. The Deputy Chief Minister of Uttar Pradesh Government is the Chairman of UPRNNL. The entity receives most of the orders from the state government on nomination basis and is the primary authority of the GoUP for implementation of building infrastructure-related projects in the state. The financial linkages are also strong. UPRNNL has been a debt-free company in the past and did not require financial support. However, in FY2018, it availed a term loan, which was extended to UP-PWD. The GoUP is expected to provide funds for the timely servicing of the repayment and interest payment obligations for this loan and there exists the track record of financial support from the GoUP for timely debt servicing.

Sizable order book, strong clientele and healthy customer advances - UPRNNL had an order book pending execution of over Rs. 10,000 crore as on December 31, 2018. This provides comfortable revenue visibility of approximately three years, based on the FY2018 revenues. The closing order book was supported by a healthy order inflow of over Rs. 2,000 crore in 9M FY2019. These mainly include projects for development/improvement of various state medical colleges, High Court-related work and others. UPRNNL's clientele primarily comprises departments of various state governments and Central public sector enterprises. The healthy advances which UPRNNL receives from its customers, supports its execution. As of March 31, 2018, the company had Rs. 5,208.2 crore of advances from customers.

Credit challenges

Execution risk with slow execution progress in many ongoing projects - The current order book has 37% orders in early stages of execution. These comprise the new projects received in the nine months of FY2019 and FY2018, and some slow-moving projects that have been under execution for long durations due to funding- and clearance-related issues. The sizeable order book also comes with execution challenges which can impact revenues and profitability.

Low operating profitability and moderation of financial profile on account sizable debt undertaken - The operating profitability of the company was low with a part of the work sub-contracted. The financial risk profile of the company moderated on account the sizable debt availed in FY2018. The gearing (total debt/tangible net worth) increased to 1.5 times at end of FY2018 from nil at the end of FY2017. The TOL/TNW ratio increased to 5.9 times at end of FY2018 from 4.5 times at the end of FY2017. The term debt has sizable debt servicing obligations that are expected to result in moderation of debt coverage indicators of UPRNNL going forward. However, the expected financial support from the GoUP for the servicing of this debt and the track record of financial support thus far offer comfort.

Liquidity position

The company has a satisfactory liquidity profile, taking into account the past track record and expectations of continued financial support from the state government for debt servicing. UPRNNL had cash balance of Rs. 5,325.5 crore at the end of FY2018. However, a majority of this comprised advances for projects held on behalf of clients, and hence was not freely available for use across other projects.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Construction Entities Impact of Parent or Group Support on an Issuer's Credit Rating
Parent/Group Support	Parent: Government of Uttar Pradesh Given the strong linkages, GoUP is expected to continue supporting UPRNNL
Consolidation / Standalone	The rating is based on standalone financial statements of the issuer

About the company

UPRNNL is state government undertaking of the GoUP. The company, incorporated in 1975, undertakes execution of infrastructure projects, primarily civil construction work, mainly for Central and state government entities on nomination as well as tender basis. The clientele of UPRNNL includes various departments of the state governments of UP, Uttarakhand, Jharkhand, etc., and Central Government departments and Central Public Sector Enterprises including ESIC, CSIR, Kendriya Vidyalaya Sangathan, IRCON, NTPC, NABARD, etc.

In FY2018, the company reported a net profit of Rs. 89.0 crore on an operating income (OI) of Rs. 3,825.2 crore compared with a net profit of Rs. 228.0 crore on an OI of Rs. 5,813.8 crore in the previous year.

Key financial indicators

	FY2017	FY2018
Operating Income (Rs. crore)	5,813.8	3,825.2
PAT (Rs. crore)	228.0	89.0
OPBDIT/OI (%)	4.5%	1.7%
RoCE (%)	25.8%	5.1%
Total Debt/TNW (times)	0.0	1.5
Total Debt/OPBDIT (times)	0.0	36.8
Interest coverage (times)	917.2	255.0

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

Instrument	Type	Current Rating (FY2020)				Chronology of Rating History for the Past 3 Years		
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating May 2019	Date & Rating April 2019	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017
						-	-	-
1 Fund Based TL	Long Term	2380.0	2380.0*	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-	-	-
2 Unallocated	Long Term/ Short Term	95.0		[ICRA]BBB (Stable)/ [ICRA]A3+				
3 Non-Fund Based	Short Term	125.0		[ICRA]A3+				

* (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	July 2017	-	March 2032	2380.0	[ICRA]BBB (Stable)
NA	Unallocated	-	-	-	95.0	[ICRA]BBB (Stable)/ [ICRA]A3+
NA	Non-fund based	-	-	-	125.0	[ICRA]A3+

Source: UPRNNL

Annexure-2: List of entities considered for consolidated analysis – Not applicable

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