November 28, 2023

P C Patel Infra Private Limited: Ratings reaffirmed and assigned for enhanced amount

Summary of rating action

Instrument*	Previous Rated Amount (Rs. Crore)	Current Rated Amount (Rs. crore)	Rating Action
Cash Credit	15.00	15.00	[ICRA]A- (Stable); reaffirmed
Bank Guarantee	35.00	135.00	[ICRA]A2+; reaffirmed/assigned for enhanced amount
Term Loan	-	100.34	[ICRA]A- (Stable); assigned
Unallocated Limits	-	105.66	[ICRA]A- (Stable)/[ICRA]A2+; assigned
Total	**50.00**	**356.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings factor P.C. Patel Infra Pvt Ltd (PCPIPL) factor in the demonstrated track record of the promoters in the mining sector spanning over the last 30 years, which enabled them to build established credentials in the contract coal mining industry. Over the last decade, the company's demonstrated track record has helped it increase its scale of operations by 8 times, from a top line of around Rs. 150 crore in FY2014 to more than Rs. 1,200 crore in FY2023. This growth was registered while maintaining an OPBDITA[1] margin above 25% consistently. This demonstrates the company's execution capabilities, as well as its ability to effectively manage its cost structure. ICRA notes that the management's policy to operate with its own fleet of mining equipment, and their technical expertise in operating and maintaining the fleet inhouse enable the company to reduce asset downtime and improve throughput per asset, and reduce dependence on costly AMCs[2] from OEMs[3], leading to sizeable cost savings.

The company's strong operating performance has translated into a healthy financial risk profile, which is reflected by the comfortable leverage levels and coverage indicators. The company operates as a contract miner primarily for reputed public sector entities and a limited number of reputed private sector clients with strong financial profiles, which largely reduce the counterparty credit risks associated in this line of business. Additionally, with a healthy order pipeline of ~Rs. 4,600 crore outstanding as on August 31, 2023, the company has a medium term revenue visibility, providing a line of sight on steady cash flows in timely meeting its scheduled debt service obligations.

The ratings are, however, tempered by the geological and regulatory risks associated with operating in the mining sector coupled with the tender-based nature and intense competition of the contract mining business, which limit the scope for margin improvement to a large extent. The ratings also consider the high project/client concentration risks with the top-three projects/ clients constituting 66%/74% of the outstanding orders as on August 31, 2023. Besides, the company is exposed to project execution risks as 77% of its order book was in the early stages of execution as on August 31, 2023 (less than 25% of the order value being executed). Any slowdown in the execution of these major projects would adversely impact the company's revenue stream in the near term. Additionally, the company's profit margins are exposed to any sharp variability in input costs, especially for consumables, and employees. Further, given the capital-intensive nature of operations, and sizeable capital charges, any significant decline in the scale of operations, going forward, can have an adverse impact on the company's bottom line.

[1] Operating profits before depreciation, interest, tax, and amortisation
[2] Annual Maintenance Contracts
[3] Original Equipment Manufacturers

The Stable outlook on PCPIPL's long-term rating reflects ICRA's opinion that the company's established track record in the contract mining business, a strong client profile, sizeable revenue visibility and prudent capital deployment plans are expected to keep earnings and credit metrics at healthy levels, going forward.

Key rating drivers and their description

Credit strengths

Established track record in the contract mining business – The promoter family has three decades of experience in the mining industry. Their technical expertise in the mining operations has enabled them to build established credentials in the contract mining industry. This is evident from the presence of a well-established clientele from both public as well as private sectors.

Strong operating performance, leading to a healthy financial risk profile – PCPIPL's operations are characterised by a steadily growing scale (top line YoY growth of 28% and 70% in FY2022 and FY2023, respectively) and attractive operating margins (26.3% and 27.7% in FY2022 and FY2023, respectively), which were better than the industry average. Strong cash flow from operations over the years has enabled the company to maintain a healthy financial risk profile, characterised by a Total Debt to OPBDITA of 1.4 times in FY2023 against 1.2 times in FY2022. The company's coverage indicators improved in FY2023, with an interest coverage of 10.9 times and Debt Service Coverage Ratio (DSCR) of 2.2 times against 8.2 and 1.2 times, respectively in FY2022. While the revenue growth is expected to moderate, going forward, sizable unexecuted order pipeline provides earnings visibility, which is expected to keep the leverage and coverage indicators healthy.

Ability to report profitable operations across business cycles – The company over the last decade has increased its scale of operations by 8 times from a top line of around Rs. 150 crore in FY2014 to more than Rs. 1,200 crore in FY2023, while consistently maintaining its OPBDITA margin above 25% due to the company's ability to effectively manage its cost structure. ICRA notes that the management's policy to operate its own fleet of mining equipment, and its technical expertise in operating and maintaining the fleet enable it to reduce asset downtime and improve throughput per asset, and reduce dependence on costly AMCs with OEMs, leading to sizeable cost savings.

Reputed client profile, leading to low counterparty risk – The company's order book consists of various large clients including well established government entities like Northern Coalfields Ltd. (a subsidiary of Coal India Ltd), NTPC Ltd., GMDC Ltd., Singreni Collieries Coalfields Ltd. and Gujarat Industries Power Company Ltd. in addition to private sector clients like Jindal Steel & Power Ltd. (JSPL) and South West Mining Ltd. (a JSW Group entity). The strong credit profiles of the customers mitigate the counterparty credit risks by ensuring timely realisation of payments, as reflected by the debtor days remaining in the range of 50-65 days over the last several years.

Healthy order book position provides medium-term revenue visibility – The company's order book has witnessed a significant growth over the last few years from Rs. 2,292 crore as on April 1, 2020 to Rs. 4,651 crore as on August 31, 2023. The trailing book-to-bill ratio, considering the current order book as on August 31, 2023, stood at 3.9 times based on the operating income for FY2023, which provides a line of sight on the company's future earnings stream over the medium term.

Credit challenges

Exposure to regulatory and geological risks arising out of presence in the mining industry –PCPIPL's exposure to regulatory risks remains high as mining operations remain exposed to such risk, which can lead to potential disruption in operations in case of any violation of statutory norms by the lessee. Moreover, the mining belts are prone to law-and-order problems, which may result in unforeseen delays in project execution. While the responsibility of getting regulatory clearances lies with the mining leaseholder, it may impact the revenues of contract miners, like PCPIPL, if the projects get delayed. Also, PCPIPL is exposed to geological risks which stem out from possibility of inferior geological terrain (for example the stripping ratio) of the mine, leading to the scope/ quantity of work increasing significantly than the estimates made while bidding. This can have an adverse impact of the margin profile of a particular project.

Exposed to significant client concentration and project execution risks – There is a high project/ client concentration risk, with the top-three projects contributing 66% to the outstanding orders as on August 31, 2023. Therefore, any slowdown in the execution of these major projects or local disturbances in the region of operations could affect the company's revenues. Historically, PCPIPL derives around 75-80% of its revenues from a handful of clients exposing the company to significant client concentration risks. The company also remains exposed to project execution risks with 77% of the order book as on August 31, 2023, in the early stages of execution (less than 25% of order value being executed).

Tender based nature of contracts and high competitive intensity limits scope for margin expansion – PCPIPL procures orders through tenders. Entities that meet the technical qualification criteria qualify for financial bidding, and subsequently the contract is awarded to the lowest (L1) bidder. Due to its tender-based nature of business, the scope of margin improvement is limited. The industry is also characterised by low entry barriers and intense competition, which keep margins of industry players under check. ICRA believes that the key avenue for margin improvement for PCIPL lies in improving its operating efficiency.

Capital intensive nature of operations coupled with exposure to margin volatility due to fluctuation in input costs – Operations of PCPIPL are capital intensive in nature due to requirement of upfront machinery purchase to meet the requirement for every new project secured before the onset of cash flows from the same. Given the sizeable capital charges, any significant decline in the scale of operations, going forward, can have an adverse impact on the company's bottom line. Additionally, PCPIPL's margins are susceptible to volatility in its input costs which include employee cost, power and fuel cost, and the cost of consumables and spares. Any revision in the wage law and/or any significant increase in prices of consumables can adversely impact the operating profit margins of the company.

Liquidity position: Adequate

PCPIPL's liquidity position remains adequate with a track record of positive cash flow from operations over the years. The free cash flows temporarily slipped into the negative territory in FY2023 due to lumpy capex undertaken to scale up its operations. With the top line expected to grow from FY2024, albeit at a moderate pace, and no major fleet expansion plans, ICRA expects PCIPL's free cash flows to turn positive in the current fiscal. Further, the company has cash and bank balances worth Rs. 74.5 crore as of March 31, 2023 along with cushion in working capital facilities, which remain largely unutilised.

Rating sensitivities

Positive factors – The ratings may be upgraded if PCPIPL is able to increase its scale while maintaining healthy profitability and is able to reduce its borrowing levels, leading to an improvement in the liquidity and debt coverage metrics.

Negative factors – Pressure on PCPIPL's ratings could arise if there are delays in execution of newly awarded projects, a stretch in the working capital cycle and/or a significant increase in debt levels, leading to a deterioration in the coverage metrics and liquidity position. Specific metrics for ratings downgrade would be a deterioration of DSCR below 1.8 times on a sustained basis.

Analytical approach

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

About the company

P.C. Patel Infra Private Limited (PCPIPL), erstwhile known as P.C. Patel & Company, was established in 1994 as a partnership firm under the leadership of Mr. Prabhulal M. Dholu and Mr. Chhaganlal M. Dholu. The company operates as a mine developer and operator (MDO) and a contract miner for various public sector entities including Gujarat Mineral Development Corporation Ltd (GMDC), Northern Coalfields Ltd, NTPC Ltd., Singreni Collieries Coalfields Ltd., Gujarat Industries Power Company Ltd. In addition to private sector entities like Jindal Steel & Power Ltd. And SouthWest Mining Ltd. (a JSW Group entity). Operations for PCPIPL span across multiple geographies in India. The company owns a large fleet of heavy earth moving machinery, which includes 54 dozers, 171 excavators, 28 graders, 21 wheel loaders, surface miners, 580 tippers and 186 miscellaneous heavy and light motor vehicles.

Key financial indicators (audited)

PCPIPL - Standalone	FY2022	FY2023	H1 FY2024*
Operating income	709.2	1202.8	628.9
PAT	72.9^	142.4^	88.4
OPBDIT/OI	26.3%	27.7%	29.7%
PAT/OI	10.3%	11.8%	14.1%
Total outside liabilities/Tangible net worth (times)	0.85	1.15	NA
Total debt/OPBDIT (times)	1.16	1.39	NA
Interest coverage (times)	8.23	10.94	9.05
DSCR (times)	1.18	2.19	NA

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; *Provisional; ^Excludes share in profit from JVs of the company*

Status of non-cooperation with previous CRA:

Rating Agency	Ratings	PR Date
Brickworks	BWR BB/Stable/BWR A4; ISSUER NOT COOPERATING /Downgraded	October 09, 2023

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)					Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore) as on Sep 30, 2023	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Nov 28, 2023	Nov 21, 2023	-	-	-
1	**Cash Credit**	Long Term	15.00	-	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**	-	-	-
2	**Bank Guarantee**	Short Term	135.00	-	**[ICRA]A2+**	**[ICRA]A2+**	-	-	-
3	**Term Loan**	Long Term	100.34	79.39	**[ICRA]A- (Stable)**	-	-	-	-
4	**Unallocated Limits**	Long Term/Short Term	105.66	-	**[ICRA]A- (Stable)/ [ICRA]A2+**	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash Credit	Simple
Bank Guarantee	Very Simple
Term Loan	Simple
Unallocated Limits	Not Applicable

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	15.00	[ICRA]A- (Stable)
NA	Bank Guarantee	NA	NA	NA	135.00	[ICRA]A2+
NA	Term Loan	FY2023	NA	FY2029	100.34	[ICRA]A- (Stable)
NA	Unallocated Limits	NA	NA	NA	105.66	[ICRA]A- (Stable)/[ICRA]A2+

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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About ICRA Limited:

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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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