

Annexure - I

Rating Rationale

Gayatri Projects Limited (GPL)

Ratings

Facilities	Amount (Rs.crore)	Ratings¹	Remarks
Long-term Bank Facilities	1,107.67	CARE B+ (Single B Plus)	Revised from CARE BB+ (Double B Plus) to CARE D (Single D) and then revised to CARE B+ (Single B Plus)
Short-term Bank Facilities	300.00	CARE A4 (A Four)	Revised from CARE A4+ (A Four Plus) to CARE D (Single D) and then revised to CARE A4 (A Four)
Long-term/Short term Facilities	2,801.00	CARE B+/CARE A4 (Single B Plus/A Four)	Revised from CARE BB+/CARE A4+(Double B Plus/A Four Plus) to CARE D (Single D) and then revised to CARE B+/CARE A4 (Single B Plus/A Four)
Total Facilities	4,208.67		

Rating Rationale

The revision in the ratings of the bank facilities of Gayatri Projects Limited (GPL) to 'CARE D' reflects delays in debt servicing by the company in Q4FY14 (refers to the period January 01, 2014 to March 31, 2014) and Q1FY15 (refers to the period April 1, 2014 to June 30, 2014). The ratings were, hence, revised to CARE D as per CARE's policy of recognizing default. However, following regularization of debt servicing the ratings stand revised to CARE B+ (Single B Plus) and CARE A4 (A Four), respectively.

The ratings are constrained by the stretched liquidity position of the company leading to restructuring of its loan, increasing debt levels, high exposure to group companies, client concentration risk, large, albeit reducing, equity commitments towards power and the BOT projects which have long gestation periods, high repayment obligations which in turn impact the liquidity profile of the company and working capital intensive nature of business. The ratings are underpinned by the track record of the company and promoters' experience and satisfactory order book albeit certain stalled orders and weak order inflow.

The ability of the company to improve its liquidity profile and capital structure is the key rating sensitivity.

Background

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

GPL is promoted by Dr T Subbarami Reddy, while the day-to-day management of the company is currently undertaken by his son and Managing Director Mr T V Sandeep Kumar Reddy. GPL is engaged in the execution of civil works including the construction of dams, roads and bridges etc.

Credit Risk Assessment

Regularization of debt servicing upon restructuring of loans

GPL had delayed in debt servicing in the past on account of stretched liquidity position of the company. The company had been facing tight liquidity position on account of high equity commitments, slow moving/stalled projects and weak order inflows. However, company has received approval for restructuring of its long term/short term loan amounting to Rs 450 crore with the repayment term of 9 years including moratorium period of 2 years from the cut-off date of July 1, 2014. Company has also refinanced its External Commercial Borrowings (ECB) amounting to Rs 135 crore for the period of 9 years including moratorium period of 2 years from the cut-off date i.e. July 1, 2014. Further the interest on long term loan, short term loan and working capital term loan is funded for a period of 2 years as funded interest term loan (FITL) and the irregular portion of working capital limits amounting to Rs. 165 crore is carved out as working capital term loan (WCTL) with a repayment period of 7 years after the moratorium period of 2 years. Furthermore the interest on term loans/ECB is reduced to 11% and on working capital loan it is reduced to 11.50% vis-à-vis an average rate of 13.25% on term loans and 14.50% on working capital loans pre restructuring.

Track record of the company and the promoters' experience

GPL is a prominent infrastructure construction company with over 40 years of experience in executing various infrastructure projects, especially road and irrigation segment. GPL, an ISO 9001 – 2000 company, is engaged in the execution of major Civil Works including concrete/masonry dams, earth filling dams, national highways, bridges, canals, aqueducts, ports, etc.

Dr T Subbarami Reddy is the chief promoter of the company and has over three decades of experience in the construction business. The day to day management of the company is currently undertaken by the Managing Director Mr T V Sandeep Reddy, son of Mr Subbarami Reddy. .

Satisfactory and diversified order book albeit certain stalled orders and weak order inflows:

As on March 31, 2014, GPL had an order book of Rs.7273 crore diversified across irrigation, road, power and industrial projects (as against Rs.8193 crore as on June 30, 2013), which is around 4.01x of the FY14 revenue. The orders from group companies amount to Rs.2008 crore i.e. 27.60% (33% as on June 30, 2013) of the order book. Irrigation and road projects (incl. BOT) are the dominant segments in the current order book and contribute to around 77% (78% in the previous year) of the total order value,

with irrigation alone contributing to 45% (41% in the previous year) and majority of the irrigation projects are in Andhra Pradesh funded by the state government. Out of total order book, project worth Rs. 1327 crore from irrigation segment have progressed very marginally since June 2013. This apart, there has also been no progress in work in the last one year with respect to irrigation segment orders aggregating to Rs. 128 crore. Furthermore, due to the overall slowdown in the construction industry there have been weak order inflows. Most of the orders in GPL's order book are orders bagged by the company in the previous years. The company has been able to add new orders aggregating to Rs. 143 crore from June 30, 2013 to March 31, 2014.

Declining turnover and increasing debt levels

GPL has achieved net contract revenue of Rs. 1813 crore in FY14 vis-à-vis Rs 2022 crore in FY13. The decrease in revenue was on account of weak order inflow and stalled project. About 52% (49% previous year) of the income was from road projects (including EPC work of BOT projects), 35% (45% previous year) from industrial and 13% from other projects. Revenue from irrigation segment declined as the execution of orders was stalled. Further, GPL's debt levels (including 67% of mobilization advances) increased from Rs. 1702.42 crore as on March 31, 2013 to Rs. 1900.52 crore as on March 31, 2014 mainly on account of increase in term loans (long term) and working capital borrowings resulting in increased overall gearing from 2.72x to 2.85x.

Continued equity commitments towards power project and BOT projects

Major equity commitments for GPL are towards power project under development and BOT road projects. As on March 31, 2014 the remaining equity commitment of GPL is Rs 428.24 crore (as against Rs 383 crore as on Oct 15, 2013). Although, GPL's commitments towards NCC Power Project Limited and Thermal Powertech Corporation India Ltd (TPCIL) has substantially reduced as Sembcorp Utilities Pte Ltd (SUPL) – the other equity partner has brought in GPL's share of Rs. 250 crore, however, on account of cost overrun of Rs.2178 crore in TPCIL, GPL has to bring its portion of about Rs. 190 crore additionally over and above of about Rs. 60 crore which they are yet to bring.

High exposure in the form of contingent liabilities including Stand-by Corporate Guarantee to subsidiary

GPL continues to have high contingent liabilities as on March 31, 2014 and the same aggregated Rs. 8465.49 Cr as on the same date. The major portion (Rs. 7481.10 crore, i.e. 88.37% of total) of contingent liabilities comprises of corporate guarantee guarantees given to group companies/subsidiaries and balance constitute of statutory liabilities and guarantees given by the banks towards performance and contractual commitments.

GPL has extended a stand-by corporate guarantee on behalf of TPCIL to the Rural Electrification Corporation Ltd and other banks and financial institutions amounting to Rs.5251 crore till the 75% of the power sale (i.e, 990MW) is tied-up on long term basis. The corporate guarantee of TPCIL will remain in force until TPCIL will sign power purchase agreement (PPA) for 990MW power (total capacity 1320MW). As on November 2014 TPCIL has PPA for supply of 500 MW of power for a period of 25 years.

Prospects

Going forward the ability of the company to improve its liquidity profile and capital structure is crucial for the company.

Financial Performance

(Rs. Crore)

Particulars	31/03/12	31/03/13	31/03/14
	A	A	A
Working Results			
Income from Operations	1803.66	2023.83	1814.87
PBILDT	282.96	295.55	274.86
Interest	104.37	135.23	159.73
Depreciation	29.06	31.29	29.98
PBT	69.78	102.01	78.56
PAT (After def Tax)	45.97	63.09	47.61
Gross Cash Accruals	78.93	101.25	77.05
Financial Position			
Equity Share capital	23.97	30.23	30.23
Net Worth	516.22	625.43	665.96
Total Capital Employed	1998.72	2359.51	2597.61
Key Ratios			
Growth (%)			
Growth in Total Income	24.74	12.21	NM*
Growth in PAT	NM*	37.24	NM*
Profitability (%)			
PBILDT / Total OI	15.69	14.60	15.14
APAT / Total Income	2.55	3.12	2.62
ROCE	10.00	10.89	9.77
Solvency(times)			
Debt Equity Ratio	1.23	1.27	1.33
Overall Gearing	2.82	2.72	2.85
Interest coverage	2.71	2.19	1.72
Term Debt/GCA (years)	13.03	7.82	11.51
Total Debt/GCA (years)	18.47	16.81	24.67
Liquidity (times)			
Current ratio	0.92	1.15	1.01
Quick ratio	0.82	1.01	0.88

Avg. Collection Period (days)	84	121	167
Avg. Inventory (days)	25	39	54
Avg. Creditors (days)	51	65	88
Op. cycle (days)	58	96	132

*Not Meaningful

Details of Rated Facilities

1. Long-term facilities

1.A. Long term Rupee Term Loan

(Rs. Crore)

Sr. No.	Name of Bank	Rated Amount	Remarks
1	Bank of Baroda	27.00	Outstanding
2	Canara Bank	0.30	Outstanding
3	Punjab National Bank	6.44	Outstanding
4	Punjab National Bank	13.59	Outstanding
5	The Federal Bank Ltd	14.92	Outstanding
6	Indian Overseas Bank	100.00	Outstanding
7	Proposed Loans	37.50	Outstanding
Total		199.75	

1.B. External Commercial Borrowing

(Rs. Crore)

Sr. No.	Name of Bank	Rated Amount	Remarks
1.	IDBI Bank Ltd.,	126.92	Outstanding
Total		126.92	

1.C. Fund based Limits

(Rs. Crore)

Sr. No.	Name of Bank	Fund Based Limits	
		CC*	Total fund-based limit
1	Bank of Baroda	200.00	200.00
2	Canara Bank	90.00	90.00
3	Corporation Bank	71.00	71.00
4	Syndicate Bank	60.00	60.00
5	Indian Overseas Bank	46.00	46.00
6	Andhra Bank	15.00	15.00
7	IDBI Bank Ltd.,	50.00	50.00
8	The Federal Bank Ltd.,	15.00	15.00
9	Union Bank of India	11.00	11.00
10	Punjab National Bank	73.00	73.00
11	State Bank of Bikaner and Jaipur	50.00	50.00
12	Proposed Working Capital Enhancement (New)	100.00	100.00
Total		781.00	781.00

*CC—Cash Credit

Total Long term facilities (1.A.+1.B.+1.C.): 1107.67 crore

2. Short -term Facilities

2.A. Rupee Term Loan

(Rs. Crore)

Sr. No.	Name of Bank	Rated Amount	Remarks
1	Bank of Baroda	50.00	Outstanding
2	Bank of Maharashtra	50.00	Outstanding
3	United Bank of India	100.00	Outstanding
4	Canara Bank	50.00	Outstanding
Total		250.00	

2.B. Fund based Limits

(Rs. Crore)

Sr. No.	Name of Bank	Fund Based Limits	
		Purchase Bill Discounting	Total fund-based limits
1	Punjab National Bank	50.00	50.00
	Total	50.00	50.00

Total Short-term facilities (2.A.+2.B.): Rs. 300 crore**3. Long term/ Short term Facilities****3.A. Non Fund based limits-**

(Rs. Crore)

Sr. No.	Name of Bank	Non Fund Based Limits	
		LCs/ BGs*	Total
1	Bank of Baroda	480.00	480.00
2	Canara Bank	600.00	600.00
3	Corporation Bank	40.00	40.00
4	Syndicate Bank	248.00	248.00
5	Indian Overseas Bank	196.00	196.00
6	Andhra Bank	80.00	80.00
7	IDBI Bank Ltd.,	437.00	437.00
8	The Federal Bank Ltd.,	15.00	15.00
9	Union Bank of India	40.00	40.00
10	Punjab National Bank	265.00	265.00
11	Proposed	400.00	400.00
	Total	2801.00	2801.00

*BG-Bank Guarantee, LC-Letter of Credit

Total Long term/Short term facilities (3.A.): Rs. 2801 crore**Total Bank Facilities: Rs. 4208.67**

Disclaimer

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