

## India Ratings Revises Capacite Infraprojects' Outlook to Negative; Affirms 'IND A'; Rates Proposed NCDs

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India Ratings and Research (Ind-Ra) has revised Capacite Infraprojects Limited's (CIL) Outlook to Negative from Stable while affirming its Long-Term Issuer Rating at 'IND A'. The instrument-wise rating action is as follows:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Bank facilities*	-	-	-	INR22,367.7 (increased from INR15,310)	IND A/Negative/IND A1	Affirmed: Outlook revised to Negative from Stable
Proposed non-convertible debentures (NCDs)#	-	-	-	INR1,000	Provisional IND A/Negative	Assigned

\*Details in Annexure

#The ratings are provisional and shall be confirmed upon the sanction and execution of the loan documents for the above facilities by CIL to the satisfaction of Ind-Ra.

**Analytical Approach:** Ind-Ra has taken a consolidated view of CIL and its 100% subsidiary CIPL-PPSL-Yongnam Joint Venture Constructions Private Limited, while joint ventures (JV) and associates have been included in financials using the equity method of accounting. Furthermore, the agency has not consolidated the expected cash flows from the Maharashtra Housing and Development Authority (MHADA) project, since the project is being executed through an integrated special purpose vehicle (SPV) in a JV (CIL's share: 37.1%) with Tata Projects Limited (TPL; 'IND AA/Stable'; share: 36.9%) and CITIC Construction Company Limited, China (share: 26%). The debt raised for the MHADA project is likely to be repaid from the cash flows of the project itself, with no recourse to CIL's cash flows. Any potential shortfall funding as well as any capex for the project will be funded through the debt tied up by the SPV.

The Negative Outlook reflects the likely fall in CIL's cash flows and the consequent deterioration in its credit metrics in the near term due to a stretched receivables cycle on demand slowdown in the real estate sector. This is likely to be exacerbated by the COVID-19 outbreak, leading to a considerable slowdown in the implementation pace of the company's order book, which is largely concentrated in the Mumbai Metropolitan Region (MMR), one of the worst affected areas in the country. The agency believes a combination of all these factors is likely to negatively affect the liquidity of the company in the near term. As such, the company is planning to raise funds through a combination of INR1,000 million NCDs and additional term loans to meet its liquidity requirement. In addition, the timely tie-up of increased working capital requirement, if any, due to a stretch in the receivables or inventory cycle, remains critical. However, CIL has bagged adequately funded projects from government agencies such as City and Industrial Development Corporation (CIDCO), the Department of Telecom – central government and Municipal Corporation of Greater Mumbai, which may partially offset the risk of an increase in its receivables cycle.

## KEY RATING DRIVERS

**Likely Deterioration in Credit Profile:** CIL's credit profile was comfortable in 9MFY20 with an interest coverage (gross interest expense/EBITDA) of 4.5x (FY19 and FY18: 5.1x) and a net leverage (debt less unrestricted cash/trailing 12 months (TTM) EBITDA) of 0.7x at end-December 2019 (FY19: 0.8x, FY18: net cash). However, Ind-Ra expects the company's credit profile to deteriorate due to lower revenue in FY21, driven primarily by the stoppage of construction activities in the company's main geography of operation MMR. According to the management, the company has received the permission for commencing construction at all but three of its projects sites, which are not a significant part of the current unexecuted order book. Furthermore, CIL's revenue trajectory (CAGR of 28.1% over FY16-FY19) is also likely to be halted by the paucity of labour at its various sites. Currently, the company claims to have around 40% of labour available, on account of the migrant exodus at the sites where it has received approvals for commencing construction.

The agency also expects CIL's debt obligations to increase in FY21 on the expectation of an elongation in its working capital cycle due to a likely elongation in its receivables cycle. CIL's profitability increased to 17.1% in 9MFY20 (FY19: 14.0%, FY18: 15.1%) since a large number of its projects which were in the mobilisation stage in FY19 commenced revenue booking in 9MFY20. However, the agency expects a 200bp-300bp decline in CIL's operating profitability in FY21 owing to the lower absorption of fixed overheads over a smaller revenue base.

**Liquidity Indicator - Stretched:** Although CIL's net cash cycle (receivables days (including retention), plus inventory days (including unbilled revenue) minus payable days (including mobilisation advances)) improved to 24 days in 9MFY20 (FY19: 58 days; FY18: 49 days) primarily due to the receipt of INR2.25 billion mobilisation advance received by the company for its CIDCO project, the agency expects a significant elongation in CIL's net cash cycle in FY21 on account of the increased receivable days, since the overall systemic liquidity (including those for public sector clients) is likely to remain stretched during the year on account of the COVID-19-induced restrictive measures hampering economic activities. To meet its increased cash-flow requirements, CIL expects to raise NCDs of around INR1,000 million and additional term loans in FY21 to meet its financing requirements.

The company has sought the Reserve Bank of India-prescribed moratorium from its working capital and term loan lenders for the repayment of debt over end-March-August 2020. The company utilised around 84% of its INR1,900 million consortium fund-based limits (including bill-discounting limits) and 85% of its INR9,400 million non-fund-based limits for the 12 months ended March 2020. CIL had INR1,150 million of unencumbered cash and cash equivalents on its books at FYE20. The company has INR504 million scheduled repayments due in FY21 while its cash flow from operations is likely to be significantly negative, given the likely increase in its receivable days. In FY20, cash flow was likely to have been around INR3 billion (FY19: INR563 million), mainly due to the receipt of the mobilisation advance for the CIDCO project. Furthermore, CIL's liquidity is also largely contingent on the additional financing that would be required by the company in FY21.

**Healthy-but-Concentrated Order Book:** At end-December 2019, CIL had an unexecuted order book of INR108,200 million (6.3x TTM revenue; excluding the MHADA project), with private and public sector orders comprising equal proportions (end-December 2018: 94% order book from private sector developers). Despite this diversification, the order book is geographically concentrated, given that MMR accounts for 88.5% of the total orders. Furthermore, the order book exhibits segmental concentration, since all the orders are in the real estate space. Around 34% of CIL's projects are residential real estate-based, 14% commercial and the rest are mixed use real estate projects. The top 10 projects of the company comprise around 78% of the total order book, which poses high project concentration risks. Any delays/issues in the execution of these projects will hamper CIL's revenue and liquidity.

**Reputed Clientele:** CIL's clients include Oberoi Constructions Limited, K Raheja Corporation with GIC Singapore, Raymond Limited, The Phoenix Mills Limited (IND A+/Rating Watch Negative), Godrej Properties Limited, Wadhwa Group Holdings, CIDCO, MHADA, Piramal Group, Brigade Group, Saifee Burhani Upliftment Trust, amongst others. The promoter plans to continue to focus on metros such as MMR and Delhi-National Capital Region, considering the need for high-rise buildings due to the limited availability of land in these cities, in addition to other large and small cities such as Bengaluru, Hyderabad, Pune and Kochi. The promoter, as a practice, chooses real estate projects that are adequately capitalised and have limited reliance on advances from end customers so that there is strong cash flow visibility. Furthermore, CIL's increased share of public sector orders has resulted in an addition of adequately funded and priority projects from marquee government agencies to the order book.

**Strong Execution Capabilities:** CIL is one of the country's leading residential and real estate engineering, procurement and construction contractors. Since its inception, the company has evolved from constructing primarily residential real estate projects to commercial projects and has gradually forayed into hybrid projects for both government and private sector clients. CIL continues to execute various complex-design high-rise residential and commercial projects in restricted area in confined city limits within the desired timelines.

## RATING SENSITIVITIES

**Negative:** Any weakening of liquidity as a result of an elongation in the working capital cycle or lower revenue visibility driven by the stalling/cancellation of the existing projects in the order book leading to deterioration in the overall credit profile and/or the net leverage increasing and sustaining above 1.5x will lead to a negative rating action. The inability to timely access capital markets or banks amid weak liquidity will also be negative for the ratings.

**Revision of Outlook to Stable:** The timely execution of projects in the order book along with the demonstration of ability to raise adequate liquidity to meet near-term cash flow challenges and the net leverage reducing and sustaining below 1.5x, will lead to a revision of the Outlook back to Stable.

## COMPANY PROFILE

Incorporated in 2012, CIL provides engineering, procurement and construction/turnkey solutions for housing, high rises, speciality buildings and urban infrastructure. The company has recently forayed into development of projects for the public sector.

## FINANCIAL SUMMARY

Particulars	9MFY20	FY19	FY18
Revenue (INR million)	12,215	17,976	13,411
EBITDA (INR million)	2,091	2,512	2,036
EBITDA margins (%)	17.1	14.0	15.2
Total debt (INR million)	2,850	2,737	2,389
Interest coverage (x)	4.5	5.1	5.1
Net leverage (x)	0.8*	0.9	not meaningful

Source: CIL, Ind-Ra, \*Based on annualised EBITDA

## RATING HISTORY

Instrument Type	Current Rating/Outlook			Rating History/Outlook/Rating Watch			
	Rating Type	Rated Limits (million)	Rating	3 May 2019	22 November 2018	16 January 2018	15 September 2017
Issuer rating	Long-term	-	IND A/Negative	IND A/Stable	IND A/Stable	IND A/Stable	IND A-/RWP
Bank facilities	Long-term/Short-term	INR22,367.7	IND A/Negative/IND A1	IND A/Stable/IND A1	IND A/Stable/IND A1	IND A/Stable/IND A1	IND A-/RWP/IND A2+/RWP
Proposed NCDs	Long-term	INR1,000	Provisional IND A/Negative	-	-	-	-

## ANNEXURE

Instrument Type	Rated Limits (million)	Date of Issuance	Coupon Rate	Maturity Date	Rating/Outlook	Rating Action
Term loans	INR1,242.7 (increased from INR1,128)	-	-	Up to FY22	IND A/Negative	Affirmed: Outlook revised to Negative from Stable
Proposed term loans*	INR675 (increased from INR172)	-	-	-	Provisional IND A/Negative	Affirmed: Outlook revised to Negative from Stable
Fund-based working capital limits	INR1,150	-	-	-	IND A/Negative /IND A1	Affirmed: Outlook revised to Negative from Stable
Proposed fund-based working capital limits	INR200	-	-	-	WD	Withdrawn (issuer did not proceed with the instrument as envisaged)
Sales invoice/bill discounting limits	INR750	-	-	-	IND A/Negative /IND A1	Affirmed: Outlook revised to Negative from Stable
Non-fund-based working capital limits	INR15,550 (increased from INR11,910)	-	-	-	IND A/Negative /IND A1	Affirmed: Outlook revised to Negative from Stable

Proposed non fund-based working capital limits*	INR3,000	-	-	-	Provisional IND A/Negative/Provisional IND A1	Assigned
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\*The final rating will be assigned following the final issuance and the receipt of final documentation, conforming to the information already received by Ind-Ra.

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## Applicable Criteria

[Corporate Rating Methodology](#)

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