CAPACIT'E
INFRAPROJECTS LIMITED

Ref : CIL/STEX 30/Q3FY22
Date : November 12, 2021

To

The Secretary, BSE Limited Corporate Relation Dept, P.J. Towers, Dalal Street, Fort, Mumbai-400 001	The Secretary, National Stock Exchange of India Limited Plot No. C/1, G Block, Bandra Kurla Complex Bandra (East) Mumbai-400 051
Scrip Code – /Scrip Id: 540710/CAPACITE	Scrip Symbol: CAPACITE

Dear Sir/ Madam,

Sub: Update on Credit Rating by India Ratings & Research (Ind-Ra)

Pursuant to Regulation 30 read with Schedule III of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended and further to our intimation dated August 22, 2021, we wish to inform that India Ratings & Research (Ind-Ra) vide its letter dated November 12, 2021 has provided an update with regards to the Credit Rating. The update letter dated November 12,2021 is enclosed.

This is for your kind information and records.

Thanking you,

Yours faithfully,

For Capacit'e Infraprojects Ltd

Varsha

Varsha Malkani
Company Secretary

CAPACIT'E INFRAPROJECTS LIMITED

Encl: As above

India Ratings & Research
A Fitch Group Company

Update on Capacite Infraprojects Limited

12

NOV 2021

By Devika Malik

India Ratings and Research (Ind-Ra) notes that Capacite Infraprojects Limited (CIL) has demonstrated a clean debt servicing track record since 23 August 2021, as confirmed by its lenders in their respective communication with the agency.

Ind-Ra based on its Default Recognition and Post-Default Curing Period Policy would review the existing rating of 'IND D' post successful completion of the 90 days cooling period from the date of curing of delays as prescribed by the regulator, i.e. after 21 November 2021.

Account Conduct Back on track; Improvement in Internal Controls System: Ind-Ra observes CIL has cleared its pending dues/charges and demonstrated timely payments since 23 August 2021. It has also informed the agency about the improvements in its internal control systems by reconfiguring the auto-debit facility of the term loans to a single cash credit account and also giving an undertaking to maintain sufficient balance in the respective account to honour the next scheduled repayment. Furthermore, in October 2021, CIL created a debt service reserve (DSR) of INR73.5 million equivalent to two months of term loan repayment obligations. This facility is earmarked with the leader of the consortium and would be utilised towards honouring the term loan repayment obligations only in the case of cash flow mismatches. This further demonstrates the intent of the management to address some of the internal policy and control-related issues which have impacted them recently. Ind-Ra believes that the auto-debit facility and creation of DSR would reduce manual intervention and any process related issues in managing the payment cycle of its 330+ equipment loan accounts.

Moderate Liquidity Profile: As of 1HFYE22 (provisional), CIL had unencumbered cash balances of around INR140 million (excluding the DSR component) along with unutilised fund-based limits of INR34 million against a scheduled repayment obligation of INR156.8 million in 2HFY22. The average maximum utilisation of its fund-based limits remained high at 91%, while that of its non-fund-based limits was around 67% over the 12 months ended September 2021. In 1HFY22, the promoters infused INR497.6 million into CIL in the form of unsecured loans by diluting a portion of their stake to meet the working capital requirements and honour CIL's obligations. The management has also informed the agency that the above unsecured loans are interest bearing at 8.15%. The interest would be accrued (net of taxes) for these loans and would not be repaid till the cash flow mismatches are addressed. Furthermore, Ind-Ra believes that the visible improvement in execution progress coupled with DSR held by the banks would ensure high visibility on principal/interest serviceability for the remaining period of FY22.

CIL's net working capital cycle recovered to 149 days as of 1HFY22 (FY21: 185 days; FY20: 98 days), despite the accumulation of unbilled revenues. The management has informed Ind-Ra that out of INR6.2 billion of unbilled revenue, around INR1.0 billion is on account of a CIDCO project where a clear recovery trajectory is visible in 2HFY22.

Ind-Ra expects the net working capital cycle to further improve by end-FY22, given a clear improvement in the quality of its order book.

Improved Operational Performance in 1HFY22: CIL's credit profile was impacted by the COVID-19 outbreak which led to a considerable slowdown in order book execution. CIL's execution had dropped by 42% yoy to INR8.8 billion in FY21 (FY20: down 15% yoy, FY19: up 34% yoy), due to disruptions in construction activities in the company's main geography of operation - Mumbai Metropolitan Region (MMR). Furthermore, COVID-19 related expenditure on health and safety of the labour force led to its EBITDA margins dropping to 15.5% in FY21 (FY20: 16.8%, FY19: 14.0%). However, despite the second wave, the company was able to register revenue of INR2.8 billion in 1QFY22 (1QFY21: INR0.2 billion) with EBIDTA margin of 14.1%. The execution pace further picked up in 2QFY22 and CIL clocked close to INR3.4 billion in revenues with EBITDA margins improving to 17.8%. Ind-Ra estimates CIL to register a revenue of INR14 billion-15 billion with EBIDTA margins in the range of 16%-17% in FY22.

CIL's credit profile had moderated in FY21 with net leverage (debt less unrestricted cash/EBITDA) increasing to 2.03x (FY20: 0.78x, FY19: 0.8x, FY18: net cash) and interest coverage (gross interest expense/EBITDA) dropping to 1.94x (3.98x, 5.12x, 5.1x), but subsequently these ratios improved in 1HFY22 to 1.15x and 3.12x, respectively (provisional figures). To address the liquidity stress, the company availed of the Reserve Bank of India-facilitated moratorium and secured interchangeability of non-fund-based limits (letter of credit limits) to fund-based limits, while the overall sanctioned limits remained unchanged. CIL has honoured the reduction in fund-based limits available to INR1.2 billion by June 2021 from a peak of INR1.9 billion at March 2021, thus reducing the external debt to INR2.3 billion (FY21: INR2.8 billion).

Strong Revenue Visibility but Highly Concentrated Order Book: At end-September 2021, CIL had an unexecuted order book of INR130 billion, providing strong revenue visibility of 8.56x of FY20 revenues (including the MHADA project), with public sector orders comprising 73.1% of the order book. However, the order book is highly concentrated in the MMR area, given that the region accounts for 92% of the total orders. Also, the top 10 projects of the company comprise around 93% of the total order book, which poses high project concentration risks. CIDCO and MHADA projects contribute around 65.5% to the overall order book. Although Ind-Ra draws comfort from the project-specific funding tie-ups being in place, any delays/issues in the execution of these projects could hamper CIL's revenue pickup and liquidity. This would remain a key rating monitorable for the agency.

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