CAPACIT'E
INFRAPROJECTS LIMITED

Ref : CIL/STEX 30/Q3FY22
Date : November 26, 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: Upgrade in 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 intimations dated August 22, 2021, we wish to inform that India Ratings & Research (Ind-Ra) vide its letter dated November 26, 2021, has Upgraded the Credit Rating assigned to Capacit'e Infraprojects Limited's (CIL) Long Term Issuer Rating to 'IND BBB' from 'IND D'. The Outlook is Stable.

The Upgraded Credit Rating report from the credit rating agency covering the rationale for credit rating dated November 26, 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

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India Ratings & Research
A Fitch Group Company

India Ratings Upgrades Capacite Infraprojects to 'IND BBB'/Stable

26

NOV 2021

By Devika Malik

India Ratings and Research (Ind-Ra) has upgraded Capacite Infraprojects Limited's (CIL) Long-Term Issuer Rating to 'IND BBB' from 'IND D'. The Outlook is Stable. The instrument-wise rating actions are given below:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Rated Limits (million)	Rating/Outlook	Rating Action
Term loans	-	-	Up to FY26	INR1,114.3 (reduced from INR1,248)	IND BBB/Stable	Upgraded
Proposed term loans	-	-	-	INR675	IND BBB/Stable	Upgraded
Fund-based working capital limits	-	-	-	INR1,200	IND BBB/Stable/IND A3+	Upgraded
Sales invoice/bill discounting limits	-	-		INR375	IND BBB/Stable/IND A3+	Upgraded
Proposed fund-based working capital limits	-	-	-	INR325	IND BBB/Stable/IND A3+	Assigned
Proposed non-fund-based working capital limits	-	-	-	INR1,600 (reduced from INR3,000)	IND BBB/Stable/IND A3+	Upgraded
Non-fund-based working capital limits	-	-	-	INR16,680 (increased from INR15,680)	IND BBB/Stable/IND A3+	Upgraded

Analytical Approach: Ind-Ra has taken a consolidated view of CIL and its 100% subsidiary CIPL-PPSL-Yongnam Joint Venture Constructions Private Limited, along with its joint ventures and associates including MHADA project (together referred to as CIL), owing to the strong operational and strategic ties among them. The joint ventures and associates have been included in financials using the equity method of accounting.

The upgrade reflects CIL's timely debt servicing on the term loans since 23 August 2021, as per the information shared by the company along with the confirmation from the lenders in their respective communication with the agency.

The rating upgrade also factors in the improvements in the internal controls and governance measures established by CIL by way of configuring the auto-debit facility for the term loans to a single cash credit account. CIL has also given an undertaking to the agency to maintain sufficient balance in the respective cash credit account to honour the next scheduled repayment all the time. Also, there is a second layer of protection in the form of a INR73.5 million debt service reserve (DSR). The ratings also reflect CIL's pick-up in order execution, ability to maintain comfortable margins and improved liquidity profile.

KEY RATING DRIVERS

Improved Operational Performance in 1HFY22: CIL's credit profile was impacted by the COVID-19 outbreak which led to a considerable slowdown in the 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 EBITDA 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 EBITDA 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 end-March 2021, thus reducing the external debt to INR2.3 billion (FY21: INR2.8 billion).

DSR Offers Second Line of Comfort : CIL created a DSR of INR73.5 million in October 2021 in the form of fixed deposits. The DSR is nearly equivalent to two months of term loan repayment obligations, providing an average monthly cover of 1.88x over 12 months ending October 2022. 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. Also, CIL has undertaken to maintain sufficient balance in the respective account to honour the next scheduled repayment at all times to avoid any delays due to manual interruption. 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 over 330 equipment loan accounts.

Strong Execution Capabilities: CIL has successfully executed complex and large residential and real estate engineering, procurement and construction projects, backed by increased order inflows (FY16-FY20: revenue CAGR 15.7%). 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 is now engaged in key projects which are of importance to the respective government such as CIDCO, MHADA project and some public sector hospital projects.

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. 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.

Liquidity Indicator – Stretched: As of 1HFYE22 (provisional), CIL had unencumbered cash balances of around INR132 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 92%, while that of its non-fund-based limits was around 67% over the 12 months ended October 2021. In 1HFY22, the promoters infused INR497.6 million into CIL in the form of interest-bearing (8.15% p.a.) unsecured loans by diluting a portion of their stake to meet the working capital requirements and honour CIL's obligations. The interest would be accrued (net of taxes) for these loans and would not be repaid till the cash flow mismatches are addressed. Also, Ind-Ra believes that the visible improvement in execution progress coupled with DSR would ensure high visibility on principal/interest serviceability for the remaining period of FY22. The rating upgrade also factors the demonstrated support offered by the lenders since the default recognition by ensuring available limits to manage the working capital requirements. The management had informed the agency that they are looking for additional fund-based working capital in 2HFY22 to offer the much-needed buffer for the existing liquidity profile.

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 was 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.

RATING SENSITIVITIES

Positive: The timely execution of projects in the order book along with the demonstration of ability to raise adequate liquidity and the net leverage reducing and sustaining below 2.0x, could lead to a positive rating action.

Negative: A negative rating action can, individually or collectively, result from:

- any dilution in DSR and/or lack of sufficient balance in the respective account to honour the next scheduled repayment over the next 12 months
- any change in the expectations of maintaining strong governance standards or weakening of newly established internal controls
- weakening of liquidity as a result of an elongation in the working capital cycle or lower revenue visibility leading to deterioration in the overall credit profile

COMPANY PROFILE

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

FINANCIAL SUMMARY (CONSOLIDATED)

Particulars	1HFY22 (Unaudited)	FY21	FY20
Revenue (INR million)	6,233	8797	15,290
EBITDA (INR million)	1,006	1,365	2,567
EBITDA margins (%)	16.1	15.5	16.8
Total debt (INR million)	2,882	2,863	3,082
Interest coverage (x)	3.1	1.9	4.0
Net leverage (x)	1.2	2.0	0.8
Source: CIL and Ind-Ra			

RATING HISTORY

Instrument Type	Current Rating			Rating History/Outlook				
	Rating Type	Rated Limits (million)	Rating	20 August 2021	12 June 2020	3 May 2019	2 April 2019	22 November 2018

Issuer rating	Long-term	-	IND BBB/Stable	IND D	IND A/Negative	IND A/Stable	IND A/Stable	IND A/Stable
Bank facilities	Long-term/Short-term	INR21,969.3	IND BBB/Stable/IND A3+	IND D	IND A/Negative/IND A1	IND A/Stable/IND A1	IND A/Stable/IND A1	IND A/Stable/IND A1

COMPLEXITY LEVEL OF INSTRUMENTS

Instrument Type	Complexity Indicator
Term loans	Low
Fund-based limits	Low
Non-fund-based limits	Low

For details on the complexity levels of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators.

SOLICITATION DISCLOSURES

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

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About India Ratings and Research: India Ratings and Research (Ind-Ra) is India's most respected credit rating agency committed to providing India's credit markets accurate, timely and prospective credit opinions. Built on a foundation of independent thinking, rigorous analytics, and an open and balanced approach towards credit research, Ind-Ra has grown rapidly during the past decade, gaining significant market presence in India's fixed income market.

Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

India Ratings is a 100% owned subsidiary of the Fitch Group.

For more information, visit www.indiaratings.co.in.

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Applicable Criteria

Corporate Rating Methodology
Short-Term Ratings Criteria for Non-Financial Corporates

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