

## Press Release

### **Brickwork Ratings assigns 'BWR A' Rating for Gayatri Projects Ltd's Secured Redeemable Non-Convertible Debentures Issue of ₹ 100 Crore with a tenor of 5 years**

**NCD Issue Rating: BWR A**

**Outlook : Stable**

Brickwork Ratings has assigned '**BWR A (Pronounced BWR A)**' Rating for Gayatri Projects Ltd's ('GPL' or 'the Company') proposed Secured Redeemable Non Convertible Debentures (NCD) Issue of ₹ 100 Crore. Brickwork Ratings' 'BWR A' stands for an instrument that is considered to offer **Adequate** credit quality / safety in terms of timely servicing of principal and interest obligations.

The rating has, inter alia, factored GPL's experienced promoter and track record of the company in execution of various infrastructure projects, strong order book position, and strategic initiatives taken by the company to diversify into new verticals. The Rating has also factored the following:

- a) The management of Gayatri Projects Ltd intends to, subject to necessary approval, raise equity of upto ₹ 300 Crore by way of rights issue to existing shareholders on or before June 2011 to strengthen the equity capital base of the Company. The promoters holding as on 30<sup>th</sup> September 2010 is 53.51% and the promoter group intends to subscribe to at least its portion of the proposed rights issue.
- b) The IJM-Gayatri Joint Venture has incurred expenditure over recognizable income amounting to ₹ 134.45 Crore said to have arisen due to contractual lapses on part of their employers (NHAI and Andhra Pradesh State Government) and the JV has raised claims for over ₹ 300 Crore on the employers for 6 packages executed by the JV which are under various stages of arbitration proceedings with appropriate authorities. Based on the legal opinion, the JV is confident of recovering its claims. At the minimum, the JV is confident that it will recover the entire expenses of about ₹ 134 Crore incurred by it. It has so far recovered an amount of ₹ 12.42 Crore from one of the packages being executed in JV. Accordingly, the expenditure has been treated as an advance payment and not considered as loss by the JV.

However the rating is constrained by high working capital intensive nature of operations, impact of political unrest on projects located in Andhra Pradesh, and financial profile marked by high gearing, strained profitability margins and debt service coverage. It is also influenced by high level of contingent liabilities in form of performance guarantees given for projects bid by subsidiaries and JVs.

#### **BUSINESS OPERATIONS**

GPL is a fast growing ISO 9001-2000 company in the infrastructure sector having business operations under roads, irrigation and other infrastructure projects. The Company enters into contracts primarily through a competitive bidding process on a standalone basis as well

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as project specific joint ventures. GPL, through its subsidiary Gayatri Infra Ventures Ltd (GIVL), executes BOT road projects on annuity/toll basis while another subsidiary called Gayatri Energy Ventures Ltd (GEVL) has been created for executing projects under power sector.

The order book to sales ratio is about 5 times, indicating good revenue visibility over the next 4-5 years. The projects are concentrated mainly in the southern states - Andhra Pradesh, Karnataka, and Tamil Nadu - which together account for 70% of the order book. Andhra Pradesh has witnessed civil unrest for the formation of separate state of Telangana. Though the issue has subsided, however, resurfacing of such events could hamper progress of projects located in these regions.

## **FINANCIAL PERFORMANCE**

GPL's Sales has grown from ₹ 1004.6 Crore in FY09 to ₹ 1252.5 Crore in FY10 reflecting a y-o-y growth of 24.6%. PBITDA during the same period has grown by 31% from ₹ 116.9 Crore in FY09 to ₹ 152.7 Crore in FY10. Higher growth in PBITDA was mainly due to relatively lower growth in construction costs consisting of work expenditure, staff cost and administrative costs. Construction expenses account for approximately 88% of the company's Sales. PAT for the year FY10 was ₹ 53.3 Crore as against ₹ 41.2 Crore in FY09.

Net Fixed Assets of the Company increased from ₹ 160.6 Crore in FY09 to ₹ 166.15 Crore in FY10 due to purchase of additional machinery for execution of new projects awarded to the Company.

GPL, during the year FY10, had resorted to substantial borrowings in the nature of short term loans for working capital purpose and to meet project related expenses for the proposed thermal power project. Total debt increased from ₹ 360.75 Crore in FY09 to ₹ 608.56 Crore in FY10. Contingent liabilities, which are the performance guarantees given by the Company in the name of joint ventures and subsidiaries, stood at ₹ 863.09 Crore in FY10 as compared to ₹ 579.76 Crore in FY09. The management of GPL intends to raise equity by way of rights issue before June 2011. Such a move would strengthen the equity capital base of the Company.

PBT for quarter ended June 2010 stood at ₹ 22.8 Crore as compared to ₹ 17.3 Crore for the corresponding quarter last year. PAT for quarter ended June 2010 was higher at ₹ 15.1 Crore than that of previous year at ₹ 12.0 Crore.

## **OUTLOOK**

GPL is an established player in infrastructure sector with strong execution capabilities. The Company is led by experienced promoters who have taken strategic decisions for diversification of the business. While the company has performed reasonably well and has strong order book which gives good revenue visibility for the next 4-5 years, its ability to adopt appropriate strategies for timely completion of projects, and ability to raise funds to finance projects would be vital for improving its performance.

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