

Rating Rationale

Brickwork Ratings reaffirms BWR A Rating for Gayatri Projects Ltd's Secured Redeemable NCD Issue of ₹ 100 crores with a tenure of 5 years; Amount raised against the Issue: ₹ 52 crores

NCD Issue Rating: BWR A

Outlook : Stable

Brickwork Ratings reaffirms **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 crores. The Company has raised ₹ 52 crores against this issue. Instruments with this rating are considered to have **adequate** degree of safety regarding timely servicing of financial obligations. Such instruments carry low credit risk.

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

BWR has essentially relied upon the GPL's audited financial performance up to March 2011, quarterly unaudited published results up to June 2011, and information and clarification provided by the Company.

Background

GPL, founded in 1989, is a Hyderabad based company that operates in infrastructure sector. The company engages in the execution of various civil works, including concrete/masonry dams, canals, highways, bridges, aqueducts, ports, airport runways, and industrial facilities. It undertakes civil and engineering contracts of various state governments, central government, and other autonomous bodies/corporations.

Management

GPL was founded by Dr. T. Subbarami Reddy having vast experience in the construction industry. Mr. T. V. Sandeep Kumar Reddy is the Managing Director of the Company and is responsible for spearheading company's day to day business activities. The Board of Directors of the Company has an optimum combination of Executive and Independent Directors and represents a mix of professionals having vast experience in construction & banking sectors.

Business Operations

GPL is a fast growing ISO 9001-2000 company in the infrastructure sector. The Company's business operations can be classified as under:

- Roads – national highways, state highways
- Irrigation – canals, dams
- Other infrastructure projects – airport runways, ports/harbors, railways, steel plants, industrial projects etc

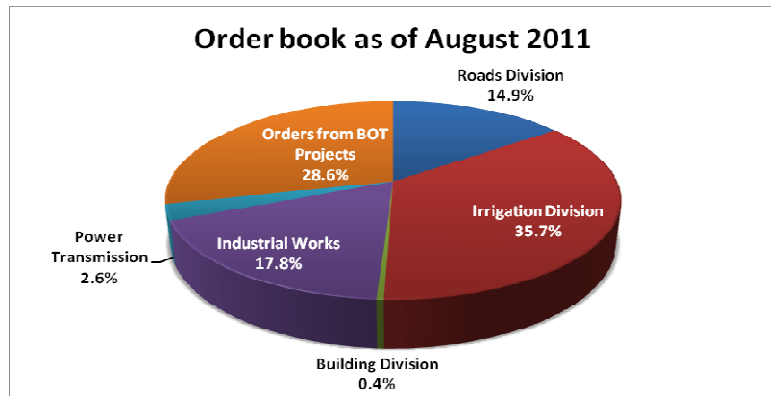
For better monitoring and maximizing the benefits, GPL has hived off its SPVs - Gayatri Infra Ventures Ltd (GIVL) was created for execution of road projects and Gayatri Energy Ventures Ltd (GEVL) has been created for executing projects under power sector. GEVL, through its subsidiary Thermal Powertech Corporation India Ltd (TPCIL), is developing a coal based power plant in Krishnapatnam, Andhra Pradesh.

GPL's roads division contributed about 65% of turnover in FY11 and is expected to remain major contributor to the turnover in future as it accounts for significant share (43%, roads and BOT projects) of the outstanding order book. The Company also specializes in irrigation projects and has bagged contracts mainly from Andhra Pradesh State Government under the flagship irrigation programme called Jalayagnam. Execution of irrigation projects in Andhra Pradesh have shown slow progress during FY11 and expected to improve during FY12. Andhra Pradesh has witnessed civil unrest for the formation of separate state of Telangana. Such events could hamper progress of projects located in these regions. During FY11, GPL has added a new vertical to its operations structure - Power Transmission and Distribution and Power-EPC Division – to capitalize on the opportunities presented by the fast growing Power sector.

Joint venture losses: The IJM-Gayatri Joint Venture had incurred expenditure over recognizable income amounting to ₹ 134.45 Crore said to have arisen due to contractual lapses on part of the employers (NHAI and Andhra Pradesh State Government) and the JV had 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. In the unlikely situation of not awarding the entire amount of claims, GPL has to provide an amount of ₹ 53.78 crores towards its share of 40% in the IJM-Gayatri Joint Venture.

Order Book

GPL has seen an 18.5% growth in its Order Book from ₹ 7005 crores in June 2010 to ₹ 8300 crores in June 2011. The order book at the end of August 2011 stood at ₹ 10,050 crores. The share of Roads & BOT projects has increased from ~25% in June 2010, to ~43% currently, while the share of irrigation projects has reduced



from ~52% to 36% during the same period. The Order Book to FY11 Sales ratio of 6.97 times indicates revenue visibility for the next 3 to 4 years. However, GPL continues to face concentration risk as ~51% of its projects are located in Andhra Pradesh and ~ 28% in Orissa.

Financial Performance

On a standalone basis, Sales have increased from ₹ 1252.5 crores in FY10 to ₹ 1440.6 in FY11, growing at 15% y-o-y. 65% of FY11 turnover was earned by the Roads Division and about 20% by the Industrial EPC Division. Irrigation projects contributed about 9%, even though they constituted almost 50% of the FY10 Order book. This is attributed to the slow progress of irrigation projects in Andhra Pradesh because of the current political disruptions in the region. The Operating margin for FY11 was 13.5%, which is an improvement over 12.2% for FY10. Interest expense increased by 54.5% y-o-y, driven by an increase in fund based limits and interest rates, and stood at ₹ 85.6 crores in FY11. PAT for FY11 was ₹ 62.4 crores as compared to ₹ 53.4 crores in FY10. PAT after prior period adjustments for FY11 stood at ₹ 50.0 crores as compared to ₹ 49.8 crores during FY10. Net profit margin declined from 3.9% in FY10 to 3.5% in FY11 on account of higher prior period adjustments during FY11.

Total borrowing of GPL have increased from ₹ 608.6 crores in FY10 to ₹ 949.8 crores in FY11. Secured loans has increased by ₹ 298.9 crores (and include proceeds amounting to ₹ 52 crores from the above mentioned NCD issue) and unsecured loans by ₹ 42.3 crores. This movement in borrowings is primarily due to an increase in capital equipment purchases, Working Capital requirements and mobilization expenditure related to new projects. Net Fixed Assets for FY11 stood at ₹ 219.3 crores. Interest Cover ratio for the year is 2.27 and Current Ratio is 1.51. Interest due on the NCD's has been paid.

Contingent liabilities have increased sharply in FY11 to ₹ 6628.8 crores, primarily due to a corporate guarantee of ₹ 5,151 crores extended by GPL to Rural Electrification Corporation, for loans granted by the latter to Thermal Powertech Corporation India Limited (TPCIL), a step-down subsidiary of GPL. It is a continuing guarantee that will apply until TPCIL executes back-to-back Power Purchase Agreements (PPA) for 990 megawatts of power for the tenure of the

loan. According to information provided by the company, PPA's for 75% of the power produced has been finalized; TPCIL is in the process of firming up purchase agreements for the remaining 25%. Key financials and ratios of GPL are as per Annexure 1.

During the year Sales for the Q1, FY12 has increased by 17% y-o-y and stands at ₹ 401.4 crores. EBITDA is ₹ 52.6 crores and PAT is ₹ 16.8 crores, as compared to ₹ 43.1 crores and ₹ 15.1 crores respectively for the corresponding period last year.

Industry Outlook

The construction industry is one of the biggest contributors to India's GDP, accounting for almost 8% and has grown at an average growth rate of 9-12% during 2006-2010. Poor quality of infrastructure seriously limits India's growth potential in the medium term and the Government of India has put a comprehensive strategy for development of both rural and urban infrastructure which includes power, roads, railways, ports, airports, telecommunications, irrigation, drinking water, sanitation, storage, and warehousing. Union Budget 2011-12 addressed some of the pressing issues of infrastructure funding and enabling mechanism including policy so as to expedite project executions.

The order backlog as ratio to net sales for construction companies was in the range of 3-5 times. Although order books of the construction sector have shown a healthy uptrend, the bottom lines have been under pressure due to rise in wages and borrowing costs. Project execution is also affected by issues relating to land acquisition, political disturbances etc causing uncertainties, cost and time overruns and pressure on margins.

On the positive side, the announcement of National Public Private Partnership policy (PPP Policy), setting up of infrastructure debt fund, augur well for infrastructure/ construction sector.

Rating Outlook

GPL is an established player in infrastructure sector with strong execution capabilities. . The company has informed that while their irrigation projects in the Telangana region (Andhra Pradesh) have been impacted by the on-going agitation, their road works in the region continue to progress as per schedule. .

The Company's ability to perform in the face of the current slowdown in the growth of the economy and the infrastructure sector , to raise finance for its new projects while also managing its debt levels, and timely execution of projects are important rating sensitivities.

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Annexure 1: Gayatri Projects Ltd - Key Financials and Ratios

₹ in Crore	2011	2010	2009	2008
Operating Income	1440.6	1252.5	1004.6	752.4
Other Income	0.20	0.44	3.3	2.9
Total Income	1440.8	1252.9	1007.9	755.3
Expenditure	1246.1	1100.2	891.0	646.5
PBIDT	194.7	152.7	116.9	108.8
Depreciation	22.7	20.1	19.7	16.4
PBIT	172.0	132.7	97.2	92.4
Net Interest expense	80.2	51.7	33.8	31.2
PBT	91.8	81.0	63.4	61.2
PAT	62.4	53.3	41.6	40.0
PAT after prior period adjustments	50.0	49.1	41.3	39.3
Equity Paid Up	11.98	11.1	10.1	10.1
Net worth	337.9	280.4	215.7	179.3
Total Loans	949.8	608.6	360.7	310.2
Contingent Liabilities	6644.2	878.4	596.2	825.9
Net Block including CWIP	219.3	166.1	160.7	162.9
Key Ratios				
Total Debt / Equity ratio (x)	4.79	2.51	1.98	2.22
Long Term Debt Equity ratio ¹ (x)	1.02	0.71	0.67	0.85
Interest cover (x)	2.27	2.75	3.17	3.23
DSCR ² (x)	0.53	0.59	1.18	1.19
Net worth (₹ Crore)	337.9	280.4	215.8	179.2
NPM ³ (%)	3.5%	3.9%	4.1%	5.2%
RoCE (%)	15.5%	17.7%	17.6%	19.4%
Cash accrual to total debt (x)	0.09	0.11	0.16	0.17
Current Ratio (x)	1.51	1.56	1.38	1.38

¹ Includes FCCBs outstanding, amounting to ₹ 89.51 Crore.

² For the purpose of DSCR calculation, 25% of Incremental Net Working Capital has been considered. For FY11, the debt payable within one year includes the current portion of long term debt and short term debt aggregating to ₹ 200.2 crores.

³ Profit After Tax after prior period adjustments