CIL/SE/2023-24/110
April 04, 2024

BSE Limited
P.J. Towers
Dalal Street
Mumbai- 400 001

Scrip code: 540710

National Stock Exchange of India Limited
Exchange Plaza, C-1, Block G,
Bandra Kurla Complex, Bandra (E)
Mumbai - 400 051

Symbol: CAPACITE

Sub: Intimation for Change in Credit Rating

Ref: Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

Dear Sir/ Madam,

We wish to inform that the India Ratings and Research Private Limited ("Credit rating agency") has revised the outlook on Capacit'e Infraprojects Limited's bank facilities from **'IND BB+ Stable' to 'IND BB+ Positive'.**

The report dated April 03, 2024 of the credit rating agency covering the rating rationale is enclosed.

Please take same on record.

This disclosure will also be hosted on Company's website viz. www.capacite.in.

For any correspondence/ queries/ clarifications, please write to cs@capacite.in.

Thanking you

Yours faithfully,
For Capacit'e Infraprojects Limited

Rahul Kapur Digitally signed by Rahul Kapur Date: 2024.04.04 14:42:06 +05'30'

Rahul Kapur
Company Secretary

Encl: as above

India Ratings Revises Outlook on Capacite Infraprojects' Bank Facilities to Positive; Affirms 'IND BB+'; Withdraws NCDs

Apr 03, 2024 | Residential | Commercial Projects

India Ratings and Research (Ind-Ra) has taken the following rating actions on Capacite Infraprojects Limited's (CIL) debt instruments:

Details of Instruments

Instrument	ISIN	Coupon Rate	Date Of Issuance	Maturity Date	Size of Issue (million)	Rating assigned along with Outlook/ Watch	Rating Action
Non-convertible debentures (NCDs)	INE264T07011	12.50%	28 March 2022	31 March 2025	INR857.2	WD	Withdrawn (paid in full)
Fund-based limits	-	-	-	-	INR1,647.6	IND BB+/Positive/ IND A4+	Affirmed; Outlook revised to Positive from Stable
Fund-based limits	-	-	-	-	INR43.3	IND BB+/Positive/ IND A4+	Assigned
Proposed fund-based working capital limit	-	-	-	-	INR209.1 (reduced from INR252.4)	IND BB+/Positive/ IND A4+	Affirmed; Outlook revised to Positive from Stable
Proposed non-fund-based capital limits	-	-	-	-	INR2,302.8	IND BB+/Positive/ IND A4+	Affirmed; Outlook revised to Positive from Stable
Proposed non-fund-based capital limits	-	-	-	-	INR60.6	IND BB+/Positive/ IND A4+	Assigned
Non-fund-based limits	-	-	-	-	INR11,496.9 (reduced from INR11,957.2)	IND BB+/Positive/ IND A4+	Affirmed; Outlook revised to Positive from Stable
Term loan	-	-	-	August 2024-March 2035	INR1841.3	IND BB+/Positive	Affirmed; Outlook revised to Positive from Stable
Term loan	-	-	-	August 2024-March 2035	INR419.7	IND BB+/Positive	Assigned

Analytical Approach

Ind-Ra continues to take 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 a Maharashtra Housing and Area Development Authority (MHADA) project, together referred to as CIL hereafter, 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.

Detailed Rationale of the Rating Action

The Positive Outlook reflects an improvement in CIL's liquidity profile, which Ind-Ra expects, will result in faster project execution and the consequent moderation of the stretched working capital position. The gross working capital as a percentage of revenue expanded to 108.4% and the net working capital increased to 49.8% during the trailing 12 months ended December 2023 due to build-up of contract assets. The tying up of a portion of the enhancements required in the working capital limits from State Bank of India (debt rated at 'IND AAA'/Stable) and equity infusion of INR2,000 million in January 2024 is likely to expedite the execution works, leading to milestone achievement and billing of its contract assets.

List of Key Rating Drivers

Weaknesses

- Stretched liquidity despite improvement
- Elongated working capital cycle

Strengths
- Maintained scale of operations
- Comfortable revenue visibility
- Comfortable credit metrics

Detailed Description of Key Rating Drivers

Stretched Liquidity despite Improvement: On a consolidated basis, CIL's liquidity profile, although stretched on account of increased working capital stuck in unbilled revenue and retention money, improved due to the fresh equity infusion of INR2,963 million during FY24 (preferential allotment of INR963 million in July 2023; qualified institutional placement of INR2,000 million in January 2024). While part of the infusion has been utilised for execution of projects and placing margins for bank guarantees/letters of credit, INR1,000 million is remaining at end-March 2024 in the form of unencumbered fixed deposits. The liquidity profile also benefits from enhancements of INR1,750 million (INR210 million in fund-based limits; INR1,540million in non-fund-based limits) in February 2024. The net incremental sanctions, after factoring in certain limits which are on run down, in the non-fund-based limits availed from the consortium were INR1,190 million over the 12 months ended February 2024. CIL had also secured approval from State Bank of India to use INR1,000 million of City and Industrial Development Corporation of Maharashtra's (CIDCO) project's bank guarantee (BG) limits of INR2,015 million for retention money BG, along with the already specified purposes of performance BG and advance BG to the extent of reduction of BG from the present level.

With the equity infusion in FY24 and the enhancement of limits in February 2024, there has been an improvement in the utilisation levels, despite a likely uptick in execution in 4QFY24. The average use of the fund-based limits average has reduced to 93% in January and February 2024 from 99% in 3QFY24. While the average utilisation of the non-fund-based limits reduced to 73% as at 21 March 2024 from 87% in 3QFY23. The company also has different project-specific limits for public projects, which provides buffer for execution of such projects. To enhance its liquidity and execution capabilities further, the company is seeking further enhancements in its working capital limits from existing and new lenders, and management expects the tie-up to be completed in the next two months.

Ind-Ra expects CIL's liquidity to also benefit from reduced margins (5% as against 10% earlier) on new letters of credit and non-retention of bank guarantees. At FYE24, CIL had unencumbered cash and cash equivalents of around INR1,082.6 million (FYE23: INR471 million). CIL has scheduled repayment obligations of INR666 million in FY25, which are likely to be met from cash balances and cash flow generation. These additional tie-ups will help in maintaining healthy liquidity buffers and in sustaining the execution run rate.

While the equity infusion, fund tie-ups and additional measures are likely to shore up the working capital margin, Ind-Ra will monitor its impact on the uptick in execution and the billing of the contract assets to assess the overall requirement of gross working capital cycle and working capital margin in the medium term, including peak requirements.

Elongated Working Capital Cycle: CIL's gross working capital (comprising of inventory, debtors, retention money, unbilled revenue, advances, among others) cycle remained elevated at nearly 108.4% during the trailing 12 months ended revenues at 9MFY24 (FY23: 93%, FY22: 101% of revenue), largely due to the building up of unbilled revenue. The liquidity stretch and the delay in tying up of limits has led to slower execution, leading to delays in achievement of payment milestones. As a result, contract assets increased sharply to INR12.8 billion in 9MFY24 (FY23: INR9.2 billion). Contracts assets comprised of INR8.88 billion of unbilled revenue and balance bills due for certification at 9MFYE24. The contract assets are contributed mainly by CIDCO's projects (INR2,275 million). As per management, the increase in contract assets is attributable to i) one/two large projects stuck post design stage, resulting is pending billing; ii) bills certification of few projects which are in completion stage are taking longer since complete assessment of the works is being done prior to final bill certification ,and iii) change of scope.

In 9MFY24, receivables along with retentions reduced to INR3,628 million at 9MFYE24 (FYE23: INR4,443 million), largely due to recoveries of old receivables of INR486 million as well as increased provisioning of INR657 million (INR480million). Its net working capital cycle as a percentage of revenue increased to 49.8% in 9MFY24 (FY23: 40.3%, FY22: 31.6%). The gross current assets/revenue was 94% at FYE23 (FYE22: 107%). The effective use of the existing non-fund-based limits, along with the ongoing efforts for the recovery of stuck receivables will provide further liquidity comfort in the short term. Ind-Ra will monitor the billing/reduction in contract assets and the cash realisation from such billing/receivables outstanding.

Comfortable Revenue Visibility: At end-December 2023, CIL had an unexecuted order book of INR98 billion, providing revenue visibility of 5.5x of FY23 revenue. In 9MFY24, the company secured new orders of INR17 billion, of which INR14.4 billion were pertaining to the new projects and the remaining was scope of expansion in existing projects. Public sector orders accounted for 65% of the order book at 9MFYE24, while the balance were from private players.

The order book is concentrated in terms of geography, projects and clients. The top 10 projects accounted for around 79% of the total order book and the top 10 clients accounted for 85% of the order book at 9MFYE24. CIDCO contributes around 36% to the overall order book at 9MFYE24, followed by MHADA project (11%). Majority of the projects to be executed are in the Mumbai Metropolitan Region.

Sustained Scale of Operations: In 9MFY24, CIL witnessed a minor dip in execution and clocked revenue of INR13.3 billion (9MFY23: INR13.5 billion; FY23: INR17.98 billion, FY22: INR13.34 billion). This was mainly due to stretched liquidity and the further delay in tying up of working capital limits. With the improvement in the liquidity, the management is targeting to report revenue of INR19.3 billion in FY24 and INR24 billion in FY25. The consolidated EBITDA and EBITDA margins also dropped to INR2,204 million in 9MFY24 (9MFY23: INR2,677 million, FY23: INR3,514 million, FY22: INR2,185 million) and 16.5%, respectively, (19.8%, 19.5%, 16%) due to an increase in subcontracting expenses. With the improvement in liquidity profile, the agency expects the scale of operations to increase in FY25.

Continued Comfortable Credit Metrics: CIL's credit profile remained comfortable with the adjusted net leverage (debt less unrestricted cash/EBITDA) of 1.06x in 9MFY24 (FY23: 0.9x, FY22: 1.4x) and gross interest coverage (gross interest expense/EBITDA) of 3.1x (3.9x, 1.9x). The slight deterioration was due to the reduction in EBITDA and an increase in interest cost (9MFYE24: INR722 million, 9MFYE23: INR677 million). The gross debt reduced to INR3,450 million at 3QFYE24 (FYE23: INR3,660million; 3QFYE23: INR3,870 million). The total outstanding liabilities (TOL)/EBITDA) increased to 5.4x in 9MFY24 on a trailing 12 months basis (FY23: 4.4x, FY22: 6.48x) because of increased outside liabilities and the reduction in EBITDA.

Liquidity

Stretched

While CIL's liquidity profile has benefitted from the equity infusion and enhancements availed, it continues to remain stretched on account of increased working capital stuck in unbilled revenue and retention money. The average maximum utilisation of the fund-based and non-fund-based limits was 98% and 83%, respectively, during the 12 months ended February 2024. The company is seeking further enhancements of INR3,354million in its working capital limits from existing and new lenders, and management expects the tie-up to be completed in the next two months.

Rating Sensitivities

Positive: The following developments, individually or collectively, could lead to a positive rating action:
- a sustained ramp up of execution, along with maintaining adequate liquidity and operational profitability,
- a reduction of contract assets by way of billing leading to the gross current assets/revenue remaining below 100%,
- rolling TOL/EBITDA remaining below 5.25x on a sustained basis.

Negative: The following developments, individually or collectively, could lead to a negative rating action:
- a significant delay in execution of orders,
- lower-than-Ind-Ra-expected profitability,
- a decline in liquidity buffers with the gross current assets/revenue increasing above 100%,
- rolling TOL/EBITDA sustaining above 5.25x.

About the Company

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.

KEY FINANCIAL INDICATORS (CONSOLIDATED)

Particulars	FY23	FY22
Revenue (INR million)	17,986	13,398
EBITDA (INR million)	3,514	2,185
EBITDA margins (%)	19.5	16.3
Interest coverage (x)	3.9	3.2
Net adjusted leverage including acceptances (x)	1.3	2.0
Source: CIL, Ind-Ra		

Status of Non-Cooperation with previous rating agency

Not applicable

Rating History

Instrument Type	Rating Type	Rated Limits (million)	Current Rating/ Outlook	Historical Rating/Outlook/Rating Watch				
				20 October 2023	25 August 2023	22 February 2023	29 September 2022	26 November 2021
Issuer rating	Long-term	-	-	WD	IND BB+/ Stable	IND BB+/ Rating Watch with Negative Implications	IND BBB+/ Stable	IND BBB/ Stable

Fund-based working capital limit	Long-term/ Short-term	INR1,900	IND BB+/Positive/ IND A4+	-	IND BB+/ Stable/ IND A4+	IND BB+/ Rating Watch with Negative Implications /IND A4+/ Rating Watch with Negative Implications	IND BBB+/ Stable/IND A2	IND BBB/ Stable/IND A3+
Non-convertible debentures	Long-term	INR857.2	WD	-	IND BB+/ Stable	IND BB+/ Rating Watch with Negative Implications	IND BBB+/ Stable	-
Non-fund-based working capital limit	Long-term/ Short-term	INR13,860.3	IND BB+/Positive/ IND A4+	-	IND BB+/ Stable/ IND A4+	IND BB+/ Rating Watch with Negative Implications / IND A4+/ Rating Watch with Negative Implications	IND BBB+/ Stable/IND A2	IND BBB/ Stable/IND A3+
Term loan	Long-term	INR2,261	IND BB+/Positive	-	IND BB+/ Stable	IND BB+/ Rating Watch with Negative Implications	IND BBB+/ Stable	IND BBB/ Stable

Bank wise Facilities Details

Click here to see the details

Complexity Level of the Instruments

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

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

APPLICABLE CRITERIA

Evaluating Corporate Governance

Policy for Placing Ratings on Rating Watch

Short-Term Ratings Criteria for Non-Financial Corporates

Corporate Rating Methodology

The Rating Process

DETAILED FINANCIAL SUMMARY

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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.

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