

Press Release

GVR Infra Constructions India Private Limited

March 23, 2019

Rating Assigned



Total Bank Facilities Rated*	Rs. 52.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable
Short Term Rating	ACUITE A3

* Refer Annexure for details

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and short term rating of '**ACUITE A3**' (read as **ACUITE A three**) on the Rs. 52.00 crore bank facilities of GVR Infra Constructions India Private Limited (GVR IPL). The outlook is '**Stable**'.

Incorporated in 2014 and based in Warangal (Telangana), GVR IPL is engaged in the business of civil construction and primarily undertakes irrigation works in the states of Telangana and partly in Maharashtra. The closely held entity is promoted by Mr. Gankidi Venkateswar Reddy.

Analytical Approach

Acuite has consolidated the business and financial risk profiles of G. Venkateshwar Reddy (GVR-proprietorship) and GVR Infraconstruction India Private Limited (GVR IPL) hereinafter referred to as GVR Group. The consolidation is mainly on account of similarity in the line of business, common management, strong operational and financial linkages and stated intent of the management to transfer the business of the GVR-proprietorship to GVR IPL in near term. . Extent of Consolidation: Full

Key Rating Drivers

Strengths

• Moderate financial risk profile

Group's financial risk profile is moderate marked by moderate net worth, gearing and healthy debt protection measures. Group's net worth stood at around Rs.24.18 crore as on March 31, 2018. The net worth has sequentially improved from Rs.19.69 crore as on March 31, 2016. Acuite believes that the net worth of the group will increase backed by its healthy revenue growth and stable operating margins leading to healthy accretion to reserves. The group has followed a moderate financial policy in the past, with its peak gearing stood at 1.97 times as on March 31, 2017. The gearing of the group, however, has improved to around 1.55 times as on March 31, 2018. The aggregate debt of Rs.37.49 crore as on 31 March 2018 mainly consists of term loans of Rs.9.43 crore, unsecured loans of Rs.17.95 crore and working capital borrowings of Rs.10.12 crore. The coverage indicators deteriorated marginally but stood healthy with Interest Coverage Ratio (ICR) of 4.18 times in FY2018 as against 4.41 times for FY2017. However, the TOL/TNW ratio stood high at 3.20 times as on 31 March 2018 as against 3.38 times as on 31 March, 2017. Going forward, Acuite expects the group to maintain its financial risk profile over the medium term partly constrained by incremental working capital requirement for the increasing scale of operations.

• Stable operating income supported by healthy order book position

The group has strong presence in irrigation projects in Telangana. The group registered an operating income of Rs.148.06 crore in FY2018 as against Rs.146.77 crore in FY2017. For 9MFY2019, the group has reported revenues on provisional basis of about Rs.98.05 crore. Moreover, the group has an unexecuted order book position of Rs.992.50 crore as on 31 January 2019 giving the revenue visibility over the medium term. Acuite believes that healthy order book, and well-funded projects are expected to support the group in reporting healthy growth in the operating revenues over the medium term.

Weaknesses

• Working capital intensive operations

Group's operations are working capital intensive marked by high Gross Current Asset (GCA) of 173 days in FY2018 compared to 124 days in FY2017. The high GCA days are mainly on account stretched debtor days and various deposits kept against bank guarantee. The debtor days elongated to 88 days in FY2018 as against 53 days in FY2018. However, the working capital requirement is partly mitigated by support from creditors, and sub-contracting to others. The average working capital limit utilization was around 90 percent for the past six months ended February 2019. Acuité believes that the efficient working capital management will be crucial to the group in order to maintain a stable credit profile.

• Execution risks remain as the group has recently won large orders

The group has a strong revenue visibility with an order book/FY2018 income level at around 6.7 times. The group is exposed to execution risks as ~72 percent of its orders are recent awards. Further, the group has high dependence on these large orders for revenue booking, as top 3 orders constitute for 76 percent of the pending order book position. However, the established track record and experienced management will aid the group in execution of the large order book.

• Competitive and fragmented industry

The group is into irrigation projects, wherein the sector is marked by the presence of several mid to large sized players. The risk becomes more pronounced as tendering is based on minimum amount of bidding on contracts, and susceptibility to inherent cyclicity in the infrastructure segment; further, it's dependent on State Government's thrust on irrigation and other infrastructure works. Acuité believes that group's revenues and margins are susceptible to the competitive bidding scenario, besides its geographical concentration of its projects to the States of Telangana.

• Geographical and customer concentration risk

The group is exposed to geographical and customer concentration risk as the most of the orders are from Andhra Pradesh and Telangana government in their respective regions.

Liquidity Position:

Liquidity of GVR group is comfortable marked by comfortable cash accruals against minimal repayment obligations. It has reported cash accruals of Rs.11.57 crore in FY2018. Its expected cash accruals are in the range of Rs.14-20 crore over the medium term against which its repayment obligations are about Rs.0.50-1.50 crore. Working capital intensive operations lead to the working capital utilization of ~90 percent for past six months ended February 2019. Acuité believes that the liquidity profile will continue to be healthy marked by healthy accruals vis-à-vis its repayment obligations, incremental working capital requirements and to part finance its regular capex.

Outlook: Stable

Outlook: Stable Acuité believes GVR group will maintain a stable business risk profile over the medium term. The group will continue to benefit from its experienced management and healthy order book position. The outlook may be revised to 'Positive' in case the group registers healthy growth in revenues while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in the group's revenues or profit margins, or in case of deterioration in the group's financial risk profile, liquidity position or delay in completion of its projects.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	148.06	146.77	51.96
EBITDA	Rs. Cr.	17.32	11.34	5.12
PAT	Rs. Cr.	6.51	6.60	2.80
EBITDA Margin	(%)	11.70	7.73	9.85
PAT Margin	(%)	4.40	4.50	5.40
ROCE	(%)	21.73	20.22	25.17
Total Debt/Tangible Net Worth	Times	1.55	1.97	0.92

PBDIT/Interest	Times	4.18	4.41	2.75
Total Debt/PBDIT	Times	2.11	3.15	3.37
Gross Current Assets (Days)	Days	173	124	90

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-14.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Consolidation Of Companies - <https://www.acuite.in/view-rating-criteria-22.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB- / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	27.00	ACUITE A3
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A3

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About Acuité Ratings & Research:

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