

Press Release

GVR Infra Constructions India Private Limited

July 20, 2022



Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	28.00	ACUITE BB Stable Reaffirmed	-
Bank Loan Ratings	47.00	-	ACUITE A4+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	75.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed the long term rating to '**ACUITE BB**' (read as **ACUITE double B**) and short term rating to '**ACUITE A4+**' (read as **ACUITE A four 'plus'**) on the Rs.75.00 Cr bank facilities of GVR Infra Constructions India Private Limited (GVR IPL). The outlook is '**Stable**'.

The rating reaffirmation takes into account its long track record of operations, experienced management and adequate liquidity position marked by adequate cash accruals against repayment obligations. The rating, however, remain constrained on account of moderate working capital intensive operations and susceptibility of revenues and profitability to tender based nature of operations.

About the Company

Incorporated in 2014 and based in Warangal (Telangana), GVR Infra Constructions India Private Limited (GVR IPL) is engaged in the business of civil construction and primarily undertakes irrigation works in the state of Telangana. The closely held entity is promoted by Mr. Gankidi Venkateswar Reddy and is a special class contractor in the region of Telangana. GVR IPL undertakes irrigation projects for 'The Superintendent Engineer' in the region, Water Resource Department, and Government of Telangana, KNR Constructions Limited, Larsen & Toubro Limited (L&T) amongst others

Analytical Approach

Acuite has considered standalone view of business and financial risk profile of GVR IPL to arrive at the rating. For the assessment of financial risk profile of GVR IPL, the unsecured loans (USL) to the extent of Rs.6.73 Cr from the promoter group have been treated as quasi equity as it is expected to remain in the business over a medium term. The USL from related parties are non-interest bearing and subordinated to external borrowings.

Key Rating Drivers

Strengths

- **Experienced management and established track record of operations**

Warangal-based GVR IPL is engaged in civil construction projects for irrigation department. GVR IPL is promoted by Mr. G. Venkateswar Reddy with an experience of more than two decades in the Civil Infrastructure industry. He has contributed towards the growth of company through achieving regular contracts from their customers and from the Government. GVR IPL has strong presence in irrigation projects in Telangana and is contributing towards the Kaleshwaram Lift Irrigation Project. GVR IPL registered an operating income of Rs.288.00 Cr in FY2022(Prov) as against Rs.325.54 Cr in FY2021. Acuité believes that GVR IPL's long track record of operations is expected to support in winning bids from Government and subcontracts from its customers and moderate order book and well-funded projects are expected to support GVR IPL in reporting healthy growth in the operating revenues over the medium term.

- **Healthy unexecuted order book**

GVR IPL has a healthy order book position, with unexecuted orders of around Rs.860.64 Cr as on June 30, 2022. The company is planning to execute around Rs.600-700 Cr in FY2023-FY2024. Outstanding order book is 3x of the FY2022 revenue. Order book also reflects L1 order received in June 2022 worth Rs.93 Cr. Acuité believes that GVR IPL's business risk profile to remain stable on account of moderate order book and ability of company to win new orders.

- **Moderate Financial risk profile**

GVR IPL's financial risk profile moderate, marked by a moderate network, capital structure and debt protection metrics. The net worth of the company stood at Rs.69.41 Cr and Rs.52.38 Cr as on March 31, 2022(Prov.) and 2021 respectively. The gearing of the company has been improving over the last 2 years ending March 31, 2022(Prov) due to decrease in long term debt and increase in net worth levels. It stood at 1.05 times as on March 31, 2022(Prov.) against 1.48 times as on March 31, 2021. Debt protection metrics – Interest coverage ratio and debt service coverage ratio stood at 3.73 times and 1.58 times as on March 31, 2022(Prov.) respectively as against 3.90 times and 2.05 times as on March 31, 2021 respectively. The decline in debt protection metrics is on account of increase in interest expense. TOL/TNW stood at 2.13 times and 3.26 times as on March 31, 2022(Prov.) and 2021 respectively. The debt to EBITDA of the company stood at 1.70 times as on 31 March, 2022(Prov.) as against 1.83 times as on 31st March, 2021. Acuité believes that the financial risk profile of GVR IPL is expected to remain moderate over the near to medium term on account of moderate cash accruals and absence of any significant debt-funded capex.

Weaknesses

- **Working capital intensive nature of operations**

GVR IPL's operations are capital intensive with Gross Current Assets (GCA) days at 149 days as on March 31, 2022(Prov.) as against 150 days as on March 31, 2021. The high GCA days are mainly on account of stretched debtor days and deposits kept against bank guarantee. Inventory days stood at 3 days as on March 31, 2022(Prov) as against 28 days as on March 31, 2021. Subsequently, the payable period stood at 397 days as on March 31, 2022(Prov.) as against 607 days as on March 31, 2021 respectively. The debtor day stood at 103 days as on March 31, 2022(Prov.) as against 111 days as on March 31, 2021. Further, the average bank limit utilization in the last twelve months ended May, 22 remained at ~91 percent for fund based and 95 percent for non-fund based. Acuité believes that the efficient working capital management through timely collections of receivables from its customers will be crucial for the company to maintain healthy liquidity profile.

Presence of High geographical and customer concentration risk

GVR IPL mostly executes orders for Irrigation departments in the state of Telangana over the past financial years. It can be observed that the contribution from a single state (i.e. Telangana) is completely 100 per cent in a given financial year, thereby, leading to significant geographical concentration risk. It can be observed that the contribution from some single customers i.e. Kaleshwaram Project and Irrigation department, Warangal is more than 40 percent each out of the total unexecuted order book leading to significant customer concentration risk. Acuité believes that the geographical and customer concentration is expected to remain on the revenue profile over the medium term.

Susceptibility to tender -based operations; Competitive and fragmented industry

Revenue and profitability depend entirely on the ability to win tenders. Entities in this segment face intense competition, thus requiring them to bid aggressively to procure contracts; this restricts the operating margin to a moderate level. Also, given the cyclicity inherent in the construction industry, the ability to maintain profitability margin through operating efficiency becomes critical. Acuité believes that the company's business profile and financial profile can be adversely impacted on account of presence of stiff competition, and has inherent risk of susceptibility to tender based operations. GVR IPL 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 GVR IPL's revenues and margins are susceptible to the competitive bidding scenario.

Rating Sensitivities

Positive

- Timely execution of its order book leading to substantial improvement in scale of operations while maintaining profitability margins over the medium term.
- Sustainable improvement in Profitability, Leverage and Solvency position of the company.

Negative

- Any significant delays in receivables from customers.
- Any deterioration in working capital cycle and liquidity profile of the company.
- Any deterioration in Revenue profile and leverage position of the company.
- Anyweakening of financial risk profile of the company

Material covenants

None

Liquidity Position: Adequate

GVR IPL's liquidity is adequate marked by adequate net cash accruals to service its debt obligations. The net cash accruals stood at Rs.26.8 Cr in FY2022(Prov.) as against the repayment of Rs.9.78 Cr for the same period and expected to generate cash accruals in the range of Rs.26-48 Cr. against current portion of long term debt (CPLTD) of Rs.4- 6 Cr. over the medium term. Unencumbered cash and bank balances stood at Rs. 0.87 Cr as on March 31, 2022(Prov). The current ratio of the company stood at 1.11 times as on March 31, 2022(Prov). Further, GVR IPL's liquidity position is now adequate and is expected to improve with enhancement of working capital limits from the respective banking institution over the period of the medium term.. Acuité believes that the liquidity of GVR IPL is likely to improve over the medium term on account of healthy order book and increasing scale of operations. However,

timely collection of payment, enhancement of banking facilities to cater the working capital requirements from the increasing order book and dependence on working capital bank lines will be key monitorables over the medium term for the assessment of liquidity position of GVR IPL.

Outlook: Stable

Acuité believes that GVR IPL will continue to benefit over the medium to long term on account of long track record of operations, experience of the management in the industry and healthy unexecuted order book. The outlook may be revised to 'Positive', in case of in case of timely execution of its unexecuted order book leading to higher-than-expected revenues and profitability with improvement in financial risk profile. Conversely, the outlook may be revised to 'Negative' in case GVR IPL registers lower-than-expected revenues and profitability or any significant stretch in its working capital management such as continuous delays in receivables from its customers or larger-than-expected debt- funded capital expenditure leading to deterioration of its financial risk profile and liquidity

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	288.00	325.54
PAT	Rs. Cr.	17.03	17.73
PAT Margin	(%)	5.91	5.45
Total Debt/Tangible Net Worth	Times	0.87	1.20
PBDIT/Interest	Times	3.73	3.90

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Infrastructure Sector: <https://www.acuite.in/view-rating-criteria-51.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
31 Jan 2022	Bank Guarantee	Short Term	15.00	ACUITE A4+ (Upgraded from ACUITE A4)
	Bank Guarantee	Short Term	32.00	ACUITE A4+ (Upgraded from ACUITE A4)
	Cash Credit	Long Term	28.00	ACUITE BB Stable (Upgraded from ACUITE C)
12 Oct 2021	Bank Guarantee	Short Term	32.00	ACUITE A4 (Downgraded and Issuer not co-operating*)
	Cash Credit	Long Term	28.00	ACUITE C (Downgraded and Issuer not co-operating*)
	Bank Guarantee	Short Term	15.00	ACUITE A4 (Downgraded and Issuer not co-operating*)
	Bank Guarantee	Short Term	15.00	ACUITE A3 (Reaffirmed)

17 Jul 2020	Cash Credit	Long Term	28.00	ACUITE BBB- Stable (Reaffirmed)
	Bank Guarantee	Short Term	32.00	ACUITE A3 (Reaffirmed)
22 Jun 2020	Cash Credit	Long Term	10.00	ACUITE BBB- Stable (Reaffirmed)
	Bank Guarantee	Short Term	27.00	ACUITE A3 (Reaffirmed)
	Bank Guarantee	Short Term	15.00	ACUITE A3 (Reaffirmed)
23 Mar 2019	Cash Credit	Long Term	10.00	ACUITE BBB- Stable (Assigned)
	Bank Guarantee	Short Term	27.00	ACUITE A3 (Assigned)
	Bank Guarantee	Short Term	15.00	ACUITE A3 (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Indian Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	32.00	ACUITE A4+ Reaffirmed
Canara Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A4+ Reaffirmed
Indian Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	28.00	ACUITE BB Stable Reaffirmed

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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