

Press Release

Vishal Infrastructure Limited

December 23, 2020

Rating Reaffirmed and Assigned



Total Bank Facilities Rated*	Rs. 260.00 Cr. (Enhanced from Rs.180.00 Cr)
Long Term Rating	ACUITE BBB+ / Outlook: Stable (Reaffirmed)
Short Term Rating	ACUITE A2 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BBB+**' (read as **ACUITE triple B plus**) and the short term rating of '**ACUITE A2**' (read as **ACUITE A two**) on the Rs.170.00 Cr bank facilities and assigned the long-term rating of '**ACUITE BBB+**' (read as **ACUITE triple B plus**) and the short term rating of '**ACUITE A2**' (read as **ACUITE A two**) on the Rs.90.00 Cr bank facilities of Vishal Infrastructure Limited (VIL). The outlook is '**Stable**'.

The reaffirmed rating reflects the long track record of VIL and the extensive experience of its promoters in the Infrastructure sector, the company's sizeable order book position that provides healthy medium-term revenue visibility and its low counterparty risk with all orders coming from Airport Authority of India (AAI), Development Research and Development Organization (DRDO). The ratings also factor in the comfortable financial profile of the company, characterised by comfortable net worth, and adequate liquidity position. The ratings, however, remained constrained by the company's tender-based business operations, exposure to slowdown in Indian economy on account of the ongoing Covid-19 pandemic and intense competition due to the fragmented nature of the construction sector and increased non-fund based limit requirement. Acuite believes that the ability of the company to secure enhancements in a timely manner would remain crucial to support the growth in medium term.

Vishal Infrastructure Limited (VIL) is a Bangalore based company, incorporated in the year 1990. The company undertakes various civil construction projects across India, including airport buildings, airport runway, buildings, roads, bridges, flyovers, among others. The company executes for diverse range of industries such as airport sector, defense industry, PSU and other central government undertakings. The clientele of the company includes Airport Authority of India (AAI), Development Research and Development Organization (DRDO), among others.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of VIL to arrive at the rating.

Key Rating Drivers

Strengths

- Established track record, experienced management and healthy order book providing adequate revenue visibility over the next 2-3 years**

The company is in the said line of business since 1990. The Managing Directors, Mr. Milind Kumar Deshpande possess more than 3 decades of experience in the civil construction industry. Top management is supported by well experienced technical team. VIL has registered growth in operating income of around 4 per cent in FY2020 (provisional) over FY2019 and Compound annual growth rate (CAGR) of 21.26 percent over the past four years ended with FY2020. The operating income in FY2020 stood at Rs.379.78 Cr as against Rs.364.93 Cr in the previous year. Airports Authority of India (AAI) 47%, Chief Construction Engineer (R&D) 32%, Bengaluru International Airport Limited (BIAL) 13%; together contributed about 92 percent of its revenues for FY2020. The Company has executable order book position of around Rs.955 Cr as on 31 September, 2020 which is 2.5 times of the FY2020 revenues and Rs. 374 Cr value of bids under L1 position, which is providing medium-term revenue visibility.

Acuite believes that healthy unexecuted order book, technical prowess and well-funded projects, promoter's established presence in the industry and strong counterparties will support VIL's business profile over the medium term.

- **Improvement in revenues and healthy order book**

Revenues of the company improved from Rs.175.67 Cr in FY2016 to Rs.379.78 Cr in FY2020, this is mainly on account of increase in work orders from its vintage clients, namely AAI and DRDO. Further, the company has unexecuted orders worth Rs.955 Cr as of September 31, 2020 to be executed in the next 2-3 years. The year-to-date revenue is impacted due to outbreak of Covid-19. FY2021 revenue is expected to show negative growth of 30-35 percent compared to last year revenues. Acuite believes that with the unexecuted orders in hand, the business risk profile is expected to be comfortable over the medium term.

- **Healthy financial risk profile**

VIL's financial risk profile is healthy, marked by healthy capital structure and healthy debt protection metrics. VIL has healthy net worth at Rs.105.56 Cr as on March 31, 2020 as against Rs.91.25 Cr as on March 31, 2019 due to improving profitability. Healthy net worth and low fund-based debt resulted in healthy gearing (debt-to-equity) and total outside liabilities to tangible network (TOL/TNW) ratio of 0.15 times and 1.13 times respectively, as on March 31, 2020 vis-à-vis 0.35 times and 1.34 times March 31, 2019. Debt protection metrics are healthy, reflected in interest coverage (ICR) and net cash accrual to total debt ratio (NCA/TD) of 5.26 times and 1.32 times, respectively, in FY2020 vis-à-vis 4.25 times and 0.58 times for FY2019. VIL generated cash accruals of Rs.15 to 20 Cr during the last three years through 2019-20, while its maturing debt obligations were in the range of Rs.4-6 Cr during the same period. The cash accruals of the firm are estimated to remain around Rs.12-16 Cr during 2021-23 while their repayment obligations are estimated to be around Rs.4-6 Cr during the same period. Acuite believes that in the absence of any major debt-funded capital expenditure in the near term; healthy cash accruals supported by low fund-based debt will lead to healthy financial risk profile over the medium term.

- **Moderate working capital management**

VIL's working capital cycle is moderate as reflected in its moderate GCA days in the range of 131-147 days over the last 3 years ending March 31, 2020. The GCA days are marked by low inventory days and debtor days. VIL had inventory and debtor days of 24 days and 53 days as on March 31, 2020 as against inventory and debtor days of 41 days and 57 days as on March 31, 2019. Furthermore, VIL benefits from the ability to stretch its payables in the range of 91-137 days during the last three years ended through as on March 31, 2020. This results in low reliance on bank lines at 53 percent over nine months through September 2020. The BG exposure was to the tune of Rs.148 Cr and it was highly utilized about 91 percent during last 9 months ending September, 2020. Acuite expects the working capital operations of VIL to remain moderate on account of the level of inventory to be maintained and the credit given to its customers.

Weaknesses

- **Exposure to risks related to the tender-driven nature of the business, and customer as well geographic concentration in revenue**

VIL is into civil works which 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 sector. Further, the company is exposed to client concentration risk as the company is presently executing orders only for AAI and DRDO. Acuite believes that VIL revenues and margins are susceptible to the competitive bidding scenario, besides its client's concentration of its projects, though mitigated partly by geographical diversification across the states. Improve scale of operations along with profitability would be the key rating sensitivity factor over the medium term.

Liquidity Position: Adequate

The Company has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations and moderate working capital management. VIL generated cash accruals of Rs.15 to 20 Cr during the last three years through 2019-20, while its maturing debt obligations were in the range of Rs.4-6 Cr during the same period. The cash accruals of the firm are estimated to remain around Rs.12-16 Cr during 2021-23 while their repayment obligations are estimated to be around Rs.4-6 Cr during the same period. This will be sufficient to meet the incremental capex and working capital requirements. VIL's working capital operations are moderate managed as evident from Gross Current Assets (GCA) of 131-147 days during last three years historically ended through FY2020. This results in low reliance on bank lines at 53 percent over nine months through September 2020. The Company maintained cash and bank balances of Rs. 3.74 Cr as on 31 March 2020. The current ratio stands comfortable at 1.45 times as on 31 March 2020. Acuite believes that the liquidity of the VIL is likely to remain strong over the medium term on account of healthy cash accruals against its minimal repayment obligations and its internal accruals, and liquid surplus to be sufficient to meet

its incremental working capital requirements.

Rating Sensitivities

- Sustained increase in order inflow, providing revenue visibility in the medium term
- Significant improvement in scale of operations, while maintaining profitability margins
- Any large debt-funded capital expenditure, resulting in deterioration of financial risk profile.

Material covenants

None

Outlook: Stable

Acuite believes that VIL will continue to benefit over the medium term due to extensive experience of its promoters, healthy order book and healthy financial risk profile. The outlook may be revised to 'Positive', if the company demonstrates substantial and sustained growth in its revenues from the current levels while improving its profitability and working capital intensity. Conversely, the outlook may be revised to 'Negative' in case of any sharp decline in its revenues or significant volatility in its profitability or any significant stretch in its working capital management leading to deterioration in the financial risk profile or any large debt-funded capex or further investments made in its group/associate entities.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	379.78	364.93
PAT	Rs. Cr.	16.98	14.63
PAT Margin	(%)	4.47	4.01
Total Debt/Tangible Net Worth	Times	0.15	0.35
PBDIT/Interest	Times	5.26	4.25

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 Entities- <https://www.acuite.in/view-rating-criteria-51.htm>
- Entities In Services Sector - <https://www.acuite.in/view-rating-criteria-50.htm>
- 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 (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
03-May-2019	Cash Credit	Long Term	17.00	ACUITE BBB+/Stable (Assigned)
	Cash Credit	Long Term	10.00	ACUITE BBB+/Stable (Assigned)
	Cash Credit	Long Term	13.00	ACUITE BBB+/Stable (Assigned)
	Bank Guarantee	Short Term	60.00	ACUITE A2 (Assigned)
	Bank Guarantee	Short Term	40.00	ACUITE A2 (Assigned)
	Bank Guarantee	Short Term	40.00	ACUITE A2 (Assigned)

***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	13.00	ACUITE BBB+/Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	17.00	ACUITE BBB+/Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB+/Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BBB+/Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BBB+/Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	60.00	ACUITE A2 (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE A2 (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	40.00	ACUITE A2 (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	18.00	ACUITE A2 (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	55.00	ACUITE A2 (Assigned)

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About Acuité Ratings & Research:

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