

Press Release

Vishal Infrastructure Limited

March 24, 2022

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	203.00	-	ACUITE A2 Reaffirmed
Bank Loan Ratings	57.00	ACUITE BBB+ Negative Reaffirmed Stable to Negative	-
Total Outstanding Quantum (Rs. Cr)	260.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

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.260.00 Cr bank facilities of Vishal Infrastructure Limited (VIL). The outlook revised from 'Stable' to '**Negative**'.

Rationale for revision in outlook and rating reaffirmation

The revision in outlook is on account of the elongation in working capital cycle for VIL reflected in the GCA days of 243 days in FY2021 against 148 days in FY2020. This is primarily on account of elongation in receivable and inventory holding period in FY2021. VIL's operating performance has also declined in FY2021 with revenue declining to Rs. 284 Cr. in FY2021 against Rs. 379 Cr. in FY2020. Operating margins declined to 6.43 percent in FY2021 from 7.83 percent in FY2020. The rating continues to draw comfort from experience of the management, established track record, healthy unexecuted order book and financial risk profile. VIL's ability to maintain its scale of operations and restrict any further elongation in working capital cycle will continue to remain a key rating sensitivity.

About the Company

Vishal Infrastructure Ltd. (VIL) is a Bangalore based company incorporated in 1990. The company undertakes various construction projects across India including airport buildings, airport runway, buildings, roads, bridges and flyovers. The company executes for diverse range of industries such as airport sector, defence sector, 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 profiles of VIL for arriving at the rating.

Key Rating Drivers

Strengths

Experienced management and established track record of operations in the civil construction segment

VIL established in the year 1990 is engaged in executing civil construction projects across India including airport buildings, airport runway, buildings, roads, bridges and flyovers mainly for Airport Authority of India (AAI), Development Research and Development Organization (DRDO), among others which are tender based. The company is managed by Mr. Milind Kumar Deshpande (Chairman & Managing Director), who possesses more than three decades of experience in the civil construction industry and he is supported by its well experienced technical team in managing the day to day operations of the company. The promoters experience has helped the company to establish long relationships with its clients which has ensured a steady order flow.

Acuité believes VIL will continue to benefit from its established presence and experienced management over the medium term.

Comfortable financial risk profile

VIL has healthy financial risk profile marked by comfortable net worth, gearing and debt protection metrics. The net worth stood at Rs.113 Cr as on 31 March, 2021 as against Rs.106 Cr on 31 March, 2020. The gearing (debt-equity) stood at 0.41 times as on 31 March, 2021 as against 0.15 times as on 31 March, 2020. The increase in gearing is on account of increase in short term bank borrowings. The total debt of Rs.47 Cr as on 31 March, 2021 consists of term loan of Rs.5 Cr and short term working capital limit of Rs.35 Cr. Total outside liabilities to tangible net worth (TOL/TNW) stood at 1.45 times as on 31 March 2021 as against 1.13 times as on 31 March 2020.. The NCA/TD ratio remained at 0.23 times in FY2021 and 1.32 times in FY2020. Interest coverage ratio (ICR) stood at 2.73 times in FY2021 as against 5.26 times in FY2020. Debt service coverage ratio (DSCR) stood at 1.34 times for FY2021 as against 2.61 times for FY2020. The decline in coverage indicators was primarily on account of decline in profitability. ICR and gearing for FY2022-23 and FY2023-24 is expected to be in the range of 2.97 - 4.29 times and 0.33 - 0.25 times respectively.

VIL's ability to maintain its financial risk profile will remain key rating sensitivity factor.

Weaknesses

Working capital intensive nature of operations

VIL's operations are working capital intensive marked by gross current asset (GCA) days of 243 days in FY2021 as against 148 days in FY2020. This is primarily driven by the high inventory and debtor days. The inventory days were recorded at 90 days for FY2021 as against 24 days in FY2020. The high inventory days reflect increase in raw material purchases by the company due to its availability at lower prices and increase in work-in-progress at the site. The debtor days were recorded at 79 days for FY2021 as against 53 days in FY2020. The increase in receivable days is majorly driven by the higher order execution towards the year end in FY2021. The creditor days were recorded at 113 days for FY2021 as against 137 days in FY2020.

Acuité believes VIL's ability to further improve its working capital cycle will be a key rating sensitivity.

Decline in operating performance

VIL has reported revenue of Rs.284 Cr in FY2021 as against Rs.380 Cr. in FY2020. This de-growth of 25.15 percent is primarily on account of halting of execution entirely for the month of April and May 2020 on account of COVID 19 induced lockdowns. The company majorly executes work orders for Airport Authority of India (AAI) and Development Research and Development Organization (DRDO) which are tender based and the profitability is generally range bound between 7 - 8 percent. However, it declined to some extent in FY2021. The operating margin

stood at 6.43 percent in FY2021 as against 7.83 percent in FY2020 whereas net profit margin stood at 2.43 percent in FY2021 as against 4.47 percent in FY2020. Further, for 9M FY2022 the company has reported revenue of Rs.137 Cr. against Rs.141 Cr. for 9M FY2021 with an operating margin of 9.94 percent and net profit margin of 1.26 percent. Further, VIL's healthy unexecuted order book of Rs.1250 Cr. also provides revenue visibility over the medium term. VIL undertakes orders for Airport Authority of India (AAI), Bharat Electronics Ltd. (BEL), Bengaluru International Airport Ltd. (BIAL), Chief Construction Engineer (CCE) R&D – DRDO, Military Engineer Services (MES), National Highway Authority of India (NHAI), among others thus reducing counter party risk. However, revenue and profitability is expected to increase in the last quarter as the company executes significant part of its order book in the last quarter.

Exposure to risks related to the tender-driven nature of the business

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 cyclical in the infrastructure sector.

Rating Sensitivities

- Scale up of operations with timely execution of orders without any significant delays
- Further elongation in working capital cycle leading to deterioration in liquidity position

Material covenants

None

Liquidity Position - Adequate

VIL has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals in the range of Rs.18 Cr – Rs.11 Cr during FY2019 - FY2021 against repayment obligation in the range of Rs.4 Cr - Rs.6 Cr during the same period. The cash accruals of the company are estimated to remain in the range of around Rs.12 Cr to Rs.18 Cr during FY2022 – FY2024 against debt repayment obligations of ~Rs.5 Cr during FY2022 and no repayment obligations further in FY2023 and FY2024. The company's operations are highly working capital intensive marked by gross current asset (GCA) days of 243 days for FY2021. This makes the company dependent on bank borrowing for working capital requirement with average bank limit utilization remaining high at ~96 percent for the 6 month ending January 2022. Current ratio stands at 1.37 times as on 31 March 2021. The company has maintained cash & bank balance of Rs.1 Cr in FY2021.

Outlook: Negative

Acuité has revised the outlook of VIL from 'Stable' to 'Negative' due to deterioration in the operating performance of the company in FY2021 and elongation in working capital management due to stretched receivables and inventory holding period during the same period. The outlook may be revised to 'Stable' in case of improvement in the working capital management and scale up in revenue and profitability margin. The rating may be downgraded in case of further elongation in working capital cycle or operating performance.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	284.25	379.78
PAT	Rs. Cr.	6.90	16.98
PAT Margin	(%)	2.43	4.47
Total Debt/Tangible Net Worth	Times	0.41	0.15
PBDIT/Interest	Times	2.73	5.26

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

Not Applicable

Any other information

None

Applicable Criteria

- Infrastructure Sector: <https://www.acuite.in/view-rating-criteria-51.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.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
23 Dec 2020	Bank Guarantee	Short Term	30.00	ACUITE A2 (Reaffirmed)
	Bank Guarantee	Short Term	60.00	ACUITE A2 (Reaffirmed)
	Cash Credit	Long Term	10.00	ACUITE BBB+ Stable (Reaffirmed)
	Cash Credit	Long Term	2.00	ACUITE BBB+ Stable (Assigned)
	Cash Credit	Long Term	17.00	ACUITE BBB+ Stable (Reaffirmed)
	Bank Guarantee	Short Term	18.00	ACUITE A2 (Assigned)
	Proposed Bank Facility	Short Term	55.00	ACUITE A2 (Assigned)
	Bank Guarantee	Short Term	40.00	ACUITE A2 (Reaffirmed)
	Cash Credit	Long Term	13.00	ACUITE BBB+ Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	15.00	ACUITE BBB+ Stable (Assigned)
03 May 2019	Cash Credit	Long Term	13.00	ACUITE BBB+ Stable (Assigned)
	Cash Credit	Long Term	10.00	ACUITE BBB+ Stable (Assigned)
	Cash Credit	Long Term	17.00	ACUITE BBB+ Stable (Assigned)
	Bank Guarantee	Short Term	40.00	ACUITE A2 (Assigned)
	Bank Guarantee	Short Term	60.00	ACUITE A2 (Assigned)
	Bank Guarantee	Short Term	40.00	ACUITE A2 (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
HDFC Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE A2 Reaffirmed
ICICI Bank Ltd	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	57.00	ACUITE A2 Reaffirmed
IDFC First Bank Limited	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	40.00	ACUITE A2 Reaffirmed
Canara Bank	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE A2 Reaffirmed
DCB Bank Limited	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	23.00	ACUITE A2 Reaffirmed
ICICI Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	17.00	ACUITE BBB+ Negative Reaffirmed Stable to Negative
IDFC First Bank Limited	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB+ Negative Reaffirmed Stable to Negative
Canara Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	13.00	ACUITE BBB+ Negative Reaffirmed Stable to Negative
DCB Bank Limited	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BBB+ Negative Reaffirmed Stable to Negative
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB+ Negative Reaffirmed Stable

							to Negative
Not Applicable	Not Applicable	Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	28.00	ACUITE A2 Reaffirmed
Not Applicable	Not Applicable	Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB+ Negative Reaffirmed Stable to Negative

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuited.in Nilesh Soni Analyst-Rating Operations Tel: 022-49294065 nilesh.soni@acuited.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuited.in

About Acuité Ratings & Research

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and 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. Since then, it has assigned more than 8,850 credit 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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