

Press Release

VVC Mks Project Private Limited

March 17, 2022



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	11.00	-	ACUITE A3+ Assigned
Bank Loan Ratings	14.00	ACUITE BBB Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	25.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has assigned the long-term rating of '**ACUITE BBB**' (read as **ACUITE Triple B**) the short term rating of '**ACUITE A3+**' (read as **ACUITE A three Plus**) to the Rs. 25.00 Cr bank facilities of VVC MKS Projects Private Limited (VVC MKSPPL). The outlook is '**Stable**'.

The ratings reflect the improving business risk profile of the group as reflected from its increasing revenue backed by healthy order book position, stable revenue stream postcommissioning with 40 per cent of the inflation-adjusted bid project cost being paid out as annuity and provision for creation of Major Maintenance Reserve (MMR), reserves to meet the regular O&M and interest obligations. The rating also factors in its above average financial position characterized by conservative leverage, strong debt coverage and adequate liquidity. These strengths are partially offset by elongated working capital cycle and the intense competition in the construction industry.

About Company

VVC MKS Projects Pvt. Ltd. (VVC MKS), which is a wholly owned subsidiary of VVCRIPL is an SPV incorporated on incorporated on 22nd of May 2020 was set up to implement the project for development, maintenance and management of Aavan Road Maksudangadh to Janjali Road to two lane in the length of 37.52 Km. in the state of Madhya Pradesh on Hybrid Annuity Model (HAM).

About the Group

Incorporated in 2013, VVC Realinfra Private Limited (VVCRIPL) is Guna, Madhya Pradesh based company, engaged into the business of civil & structural works, roads & bridges work, building, railways work & various civil construction works for the state government of Madhya Pradesh, Central Government and Indian Railways. The business was started as a partnership firm in 2006 and changed constitution to a closely held company in 2013 with name changed to its current name. Currently, the company is headed by Mr Vinod Kumar Lahoti, Mr Virendra Kumar Agrawal, Mr Narendra Kumar Lahoti and Mr Rajendra Kumar Agrawal, who all are promoter directors.

Analytical Approach

Extent of Consolidation

- Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

For arriving at the ratings, Acuité has consolidated the business and financial risk profiles of VVC Realinfra Private Limited (VVCRIPL) and its subsidiary-VVC MKS Projects Private Limited (VVC MKSPPL) together referred to as the 'VVC Group'. The consolidation is in view of common management, 100 percent holding by VVCRIPL in VVC MKSPPL and corporate guarantee extended by VVCRIPL to meet the shortfall in debt servicing.

Key Rating Drivers

Strengths

- **Strong parentage/sponsor; Demonstrated track record of road projects**

VVC MKS will benefit from the strong operational and financial support of VVCRIPL, which owns 100 per cent of the company's shares. VVCRIPL has a track record of more than two decades in the EPC segment and has worked with established developers and undertaken build-operate-transfer/HAM projects as a sub-contractor. VVCRIPL has provided shortfall guarantee and in case of any shortfall, they will bring in fresh equity to bridge the gap.

While enumerating the support extended by VVCRIPL to VVC MKSPPL, Acuité takes cognizance of parent's key strengths defined by its resourceful promoters and strong management team. The promoter has around four decades of experience in construction business. The long standing experience of the promoters and long track record of operations has helped them to establish comfortable relationships with key suppliers and reputed customers. Under the experienced quartet of Mr Vinod Kumar Lahoti, Mr Virendra Kumar Agrawal, Mr Narendra Kumar Lahoti and Mr Rajendra Kumar Agrawal, the group has completed many prestigious projects in almost all major fields of construction Industry including roads & highways, development works, civil & structural works, buildings works as well as industrial projects for various reputed client. Acuité derives comfort from the long experience of the management and believes this will benefit the firm going forward, resulting in steady growth in the scale of operations.

- **Sound business risk profile**

VVCRIPL has achieved revenues of Rs. 130.98 Cr in FY2021 as compared to revenues of Rs.100.76 Cr in FY2020. The stability in revenue is backed by an unexecuted healthy order book position to the tune of about Rs. 445.84 Cr as on 1st December, 2021. Operating margin has been volatile over the past one year, on account of fluctuations in material expenses and higher inventory cost. High inventory cost amid the economic slowdown kept the margin under pressure in FY 2021. The profitability margins of the group have declined marginally with operating margin of 12.53 per cent in FY21 as compared to 13.42 per cent in the previous year. The PAT margins stood at 6.62 per cent as on FY2021 as against 6.54 per cent as on FY2020. The RoCE levels for the company stood comfortable at 18.17 per cent in FY2021 as against 19.64 per cent in FY2020. Though company's profitability is exposed to volatility in raw material prices as their prices are volatile in nature, VVCRIPL have an in-built price escalation clause for major raw materials (such as steel, cement, fuel and bitumen) in most of its contracts. The group has achieved revenues of Rs 105.64 Cr till December 2021 (Provisional). The group has healthy order book position with unexecuted orders in hand for infrastructure projects worth around Rs. 445.84 crore which are to be executed in the upcoming two to three years, thereby providing strong revenue visibility in the medium term. Acuité believes that the group will continue to sustain its order book position and maintain its business risk profile over the medium term.

- **Above average financial risk profile**

The group's above average financial risk profile is marked by moderate albeit improving networth, comfortable gearing and strong debt protection metrics. The tangible net worth of the group improved to Rs.50.97 Cr as on March 31, 2021 from Rs.42.63 Cr as on March 31, 2020 due to accretion to reserves. Gearing of the group stood below unity at 0.69 times as on March 31, 2021 as against 0.42 times as on March 31, 2020. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.88 times as on March 31, 2021. The strong debt protection metrics of the group is marked by Interest Coverage Ratio at 6.59 times as on March 31, 2021 and Debt Service Coverage Ratio at 2.08 times as on March 31, 2021. This provides the SPV adequate cushion to withstand adverse movement in the bank rate and inflation to a major extent. The credit profile of VVC MKS is supported by corporate guarantee extended by VVCRIPL to meet any shortfall in debt servicing. Net Cash Accruals/Total Debt (NCA/TD) stood low at 0.37 times as on March 31, 2021. Acuité believes that going forward the financial risk profile of the group will remain above average with no major debt funded capex plans. VVCMKS had completed financial closure (FC) for the project at a cost of Rs 98.32 crore, funded by Asian Development Bank grant of Rs 58.99 crore, debt of Rs 14.00 crore, and balance through equity. The project had achieved more than 67 per cent physical progress till January 2022 which was primarily funded through sponsor's funds and MPRDC grants of Rs 39.00 crore. All three payment milestones from MPRDC have been received on time and in full.

Weaknesses

- **Working capital intensive nature of operations**

The working capital intensive nature of operations of the group is marked by high Gross Current Assets (GCA) of 220 days as on March 31, 2021, as compared to 202 days as on 31 st March 2020. The high GCA days are on account of high level of current assets due to significant security deposits, margin money and retentions kept by the tendering authorities. Further, the inventory holding stood moderate at 76 days as on 31 st March 2021 as compared to 88 days as on 31 st March 2020. However, the debtor period stood comfortable at 35 days as on 31 st March 2021 as compared to 18 days as on 31st March 2020 owing to involvement with government tenders. Acuité believes that the working capital operations of the group will remain almost at the same levels as evident from efficient collection mechanism and the high level of retention money over the medium term.

- **Competitive and fragmented nature of industry**

With increased focus of the central government on the infrastructure sector, VVC group is expected to reap benefits over the medium term. However, most of its projects are tenderbased and face intense competition, which may hence require it to bid aggressively to get contracts. Competition can intensify further due to the recent relaxation in bidding norms by NHAI and the Ministry of Road Transport & Highways (MoRTH).

Rating Sensitivities

- Timely receipt of first annuity
- Creation of DSRA in line with financing agreement

Material Covenants

None

Liquidity Position: Adequate

Liquidity is adequate, supported by adequate cash accrual which stood at Rs. 11.36 Cr as on March 31, 2021 as against long term debt repayment of only Rs. 4.17 Cr over the same period. Liquidity is expected to be adequate post completion (scheduled for November 2022) as the

project will receive annuities (along with interest) and O&M pay-out from MPRDC. The current ratio stood moderate at 1.38 times as on March 31, 2021. The significant portion of its security deposits are being met though deposit from subcontractor (in proportionate to given work) which lower requirement of funds in business. As a result, fund-based limit of Rs 17.00 crore was moderately utilized at 84 percent during the 9 months ended December 2021. The cash and bank balances of the group stood at Rs.4.15 Cr as on March 31, 2021. Further, the group has applied for additional covid loan for Rs. 2.46 Cr., but not availed loan moratorium. However, the working capital management of the group is high as reflected by Gross Current Assets (GCA) of 220 days as on March 31, 2021, as compared to 202 days as on 31st March 2020. Acuité believes that going forward the group will maintain adequate liquidity position due to steady accruals.

Outlook: Stable

Acuité believes VVCMKSPPL will benefit over the medium term from its promoters' extensive industry experience. The outlook may be revised to 'Positive' if scale of operations, profitability, and working capital cycle improve significantly, and if the group widens geographical presence. Conversely, the outlook may be revised to 'Negative' if financial risk profile weakens because of significantly low cash accrual, or sizeable working capital requirement, or debt-funded capital expenditure.

Other Factors affecting Rating

Not Applicable

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	122.02	100.76
PAT	Rs. Cr.	8.08	6.59
PAT Margin	(%)	6.62	6.54
Total Debt/Tangible Net Worth	Times	0.69	0.42
PBDIT/Interest	Times	6.59	5.91

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

Brickwork Ratings, vide its press release dated January 24, 2022 had downgraded the rating of VVCRPL to 'BWR BB+/Stable/A4+'; ISSUER NOT COOPERATING'.

Any Other Information

Not Applicable

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Service Sector: <https://www.acuite.in/view-rating-criteria-50.htm>

Note on Complexity Levels of the Rated Instrument

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

Rating History:

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	11.00	ACUITE A3+ Assigned
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	14.00	ACUITE BBB Stable Assigned

Contacts

Analytical	Rating Desk
Pooja Ghosh Head-Rating Operations Tel: 022-49294041 pooja.ghosh@acuite.in Srijita Chatterjee Analyst-Rating Operations Tel: 022-49294065 srijita.chatterjee@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.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.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.