Press Release
VVC Mks Project Private Limited
August 29, 2023
Rating Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	12.55	ACUITE BBB | Stable | Upgraded	-
Bank Loan Ratings	12.45	-	ACUITE A3+ | Upgraded
Total Outstanding Quantum (Rs. Cr)	25.00	-	-

Rating Rationale

Rating Rationale
Acuité has upgraded its long-term rating from **'ACUITE BB+' (read as ACUITE double B plus)** to **'ACUITE BBB' (read as ACUITE t riple B)** and its short term rating from **'ACUITE A4+' (read as ACUITE A four plus)** t o **'ACUITE A3+' (read as A three plus)** on the Rs.25.00 crore bank facilities of VVC MKS Project Private Limited. The outlook is **'Stable'**.

Rationale for Rating Upgrade
The rating takes into account the sound business risk profile of the group as reflected from its increasing revenue buoyed by healthy order book position. The revenue stream remains steady post-commissioning, with 40% of the adjusted project cost paid out as annuity. Additionally, provisions are in place for the creation of MMR and reserves to cover regular O&M and interest obligations. The group has healthy unexecuted order book of Rs.646.25 crore as on 6th April 2023 providing adequate revenue visibility over the medium term. The rating also factors in the above average financial risk profile with low gearing levels, moderate net worth and comfortable debt protection matrices. The liquidity position of the group remains adequate with steady cash accruals against mature debt obligations. The rating also draws comfort from the established operations with experienced management of the company. However, these strengths are partially offset by working capital intensive nature of operations, exposure to risk related to intense competition and tender nature of business operations.

About the Company
VVC Realinfra Private Limited (VVCRIPL) has recently entered the domain of Hybrid Annuity Mode (HAM) projects within Madhya Pradesh. To execute this project, the company established a Special Purpose Vehicle (SPV) named VVC MKS Projects Pvt. Ltd. (VVCMKS), which functions as a fully owned subsidiary of VVCRIPL. VVCRIPL has extended a shortfall guarantee, committing to inject additional equity if any deficit arises, thereby effectively covering the funding gap.

About the Group
Established in 2013, VVC Realinfra Private Limited (VVCRIPL) is situated in Guna, Madhya Pradesh, and is primarily involved in civil and structural projects, road and bridge construction, building development, railway endeavours, and various other civil construction undertakings for the Madhya Pradesh state government, Central Government, and Indian Railways. Originally initiated as a partnership firm in 2006, the business transformed its structure into a closely held company in 2013, adopting its present name. Presently, the leadership of

the company consists of promoter directors Mr. Vinod Kumar Lahoti, Mr. Virendra Kumar Agrawal, Mr. Narendra Kumar Lahoti, and Mr. Rajendra Kumar Agrawal.

Analytical Approach

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 (VVCMKS) together referred to as the 'VVC Group'. The consolidation is in view of common management, 100 percent holding by VVCRIPL in VVCMKSPPL and corporate guarantee extended by VVCRIPL to meet the shortfall in debt servicing. Extent of Consolidation: Full Consolidation.

Key Rating Drivers

Strengths

- **Strong Parental support with long track record and experienced management**

VVCMKS stands to benefit from the strong operational and financial backing of VVCRIPL, which possesses the entirety of the company's shares. With over twenty years of involvement in the EPC sector, VVCRIPL has collaborated with established developers, participating as a subcontractor in build-operate-transfer/HAM projects. The company possesses the necessary financial flexibility to offer support to projects when necessary. In addition to handling cost overruns, VVCRIPL is prepared to provide assistance for any rise in O&M expenditures during the construction phase. Furthermore, VVCRIPL is committed to addressing any shortfall in DSRA creation and debt servicing during the operational phase. Even any increase in O&M expenses beyond the MPRDC pay-out during the operational phase will be financed by VVCRIPL.

The promoter boasts approximately twenty years of experience in the construction business. The extensive and enduring experience of the promoters, coupled with their established operational history, has enabled them to foster strong relationships with key suppliers and esteemed customers. Under the leadership of Mr. Vinod Kumar Lahoti, Mr. Virendra Kumar Agrawal, Mr. Narendra Kumar Lahoti, and Mr. Rajendra Kumar Agrawal, the group has successfully completed numerous prestigious projects across various sectors of the construction industry, encompassing roads and highways, development endeavours, civil and structural projects, building construction, as well as industrial ventures for renowned clients. The management's wealth of experience has consistently facilitated the company's acquisition of tenders. Acuité finds assurance in the extensive managerial experience and believes that this will propel the company's growth trajectory, resulting in a consistent expansion of operational scope.

- **Augmentation in business risk profile supported by healthy order book**

The revenue of the group stood moderate at Rs.215.95 crore in FY 2023(Provisional) as compared to Rs.171.93 crore in FY2022. The stability in revenue is backed by an unexecuted healthy order book position to the tune of about Rs. 646.25 Cr as on 6th April, 2023. Acuité believes the revenue of the group will be increasing going forward based on the healthy unexecuted order book in hand over the medium term.

Furthermore, the operating margin of the group marginally declined to 12.04 per cent in FY2023(provisional) as compared to 12.46 per cent in FY2022. The PAT margin stood at 5.81per cent for FY2023(provisional) as compared to 5.84 per cent for FY2022. Despite the group's profitability being susceptible to fluctuations in raw material prices due to their inherent volatility, VVCRIPL has incorporated a price escalation clause for major raw materials (such as steel, cement, fuel, and bitumen) in the majority of its contracts. Acuité maintains the expectation that the margin will range between 11 percent and 13 percent.

- **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.76.15 Cr as on March 31, 2023(Provisional) from Rs.63.61 Cr as on March 31, 2022 due to accretion to reserves. Gearing of the group stood below unity at 0.76 times as on March 31, 2023(Provisional) as against 0.80 times as on March 31, 2022. The Total Outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.69 times as on March 31, 2023(Provisional). The strong debt protection metrics of the group is marked by Interest Coverage Ratio at 6.23 times and Debt Service Coverage Ratio at 2.68 times as on March 31, 2023(Provisional). The credit profile of VVC MKS is supported by undertaking towards cost overrun during the construction phase, any shortfall in O&M expenses and corporate guarantee to meet any shortfall in debt servicing. Net Cash Accruals/Total Debt (NCA/TD) stood low at 0.29 times as on March 31, 2023(Provisional). Acuité believes that going forward the financial risk profile of the group will remain above average with no major debt funded capex plans.

Weaknesses

- **Working capital intensive nature of operation**

The working capital intensive nature of operations of the group is marked by high Gross Current Assets (GCA) of 203 days as on March 31, 2023(Provisional), as compared to 181 days as on 31st March 2022. 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 81 days as on 31st March 2023(Provisional) as compared to 57 days as on 31st March 2022. However, the debtor period stood comfortable at 27 days as on 31st March 2023(Provisional) as compared to 25 days as on 31st March 2022 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.

- **Industry Characterized by Intense Competition and Fragmentation**

Due to the heightened attention of the central government on the infrastructure industry, the VVC group is anticipated to experience advantages in the foreseeable future. Nevertheless, a majority of its undertakings are reliant on tender processes and confront strong rivalry, potentially necessitating more assertive contract bidding. The competition could escalate due to the recent relaxation in bidding regulations by NHAI and the Ministry of Road Transport & Highways (MoRTH).

Rating Sensitivities

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

All Covenants

None

Liquidity Position

Adequate

Liquidity is adequate, supported by adequate cash accrual which stood at Rs. 16.75 Cr as on March 31, 2023(Provisional) as against long term debt repayment of only Rs. 3.62 Cr over the same period. Liquidity is expected to be adequate post completion as the project will receive annuities (along with interest) and O&M pay-out from MPRDC. The current ratio stood comfortable at 1.83 times as on March 31, 2023(Provisional). Moreover, the fund-based limit was moderately utilized at ~77.78 percent during the six months ended June 2023. The cash and bank balances of the group stood at Rs.3.25 Cr as on March 31, 2023(Provisional). However, the working capital intensive nature of operations of the group is marked by high Gross Current Assets (GCA) of 203 days as on March 31, 2023(Provisional), as compared to 181 days as on 31st March 2022. Acuité believes that going forward the group will maintain adequate liquidity position due to steady accruals.

Outlook: Stable

Acuité believes VVCMKS 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 23 (Provisional)	FY 22 (Actual)
Operating Income	Rs. Cr.	215.95	171.93
PAT	Rs. Cr.	12.54	10.04
PAT Margin	(%)	5.81	5.84
Total Debt/Tangible Net Worth	Times	0.76	0.80
PBDIT/Interest	Times	6.23	5.56

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

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

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite' s categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
26 May 2023	Bank Guarantee	Short Term	11.00	ACUITE A4+ (Downgraded and Issuer not co-operating*)
	Term Loan	Long Term	14.00	ACUITE BB+ (Downgraded and Issuer not co-operating*)
17 Mar 2022	Term Loan	Long Term	14.00	ACUITE BBB | Stable (Assigned)
	Bank Guarantee	Short Term	11.00	ACUITE A3+ (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	12.45	ACUITE A3+ | Upgraded
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	12.55	ACUITE BBB | Stable | Upgraded

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Dipti Choudhary Analyst-Rating Operations Tel: 022-49294065 dipti.choudhary@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

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.

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. Ratings assigned by Acuité 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. Ratings assigned by Acuité 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.