Vriddhi Infratech India Private Limited

March 02, 2021

Ratings

Facilities	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	8.00	**CARE BB+; Stable; ISSUER NOT COOPERATING* (Double B Plus; Outlook: Stable ISSUER NOT COOPERATING*)**	**Revised from CARE BBB-; Stable (Triple B Minus; Outlook: Stable) and moved to ISSUER NOT COOPERATING category**
Short Term Bank Facilities	92.00	**CARE A4+; ISSUER NOT COOPERATING* (A Four Plus ISSUER NOT COOPERATING*)**	**Revised from CARE A3 (A Three) and moved to ISSUER NOT COOPERATING category**
Total Bank Facilities	**100.00 (Rs. One Hundred Crore Only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has been seeking information from Vriddhi Infratech India Private Limited (VIIPL) to monitor the rating(s) vide e-mail communications/letters dated October 20, 2020, February 19, 2021 among others and numerous phone calls. However, despite our repeated requests, the VIIPL has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the best available information which however, in CARE's opinion is not sufficient to arrive at a fair rating. The rating on VIIPL's bank facilities will now be denoted as **CARE BB+; Stable/CARE A4+; ISSUER NOT COOPERATING*.**

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating(s).

The ratings have been revised on account of subdued financial performance during FY20 (refers to period April 01 to March 31) with decline in revenue and profit level. The ratings continued to remain constrained by limited track record of operations, concentrated order book position, risk associated with fluctuation in input prices, intense competition in industry and tender driven business. The rating, however, derives strength from satisfactory experience of promoters, growing order book position and satisfactory profit margins.

Detailed description of the key rating drivers

At the time of last rating on December 04, 2019, the following were the rating strengths and weaknesses (updated for FY20 financials availed from MCA):

Key Rating Weaknesses:

Limited track record of operations: VIIPL has been operating in the construction EPC business in India since the past five years and hence has limited execution track record in the country with moderate scale of operation. However, the promoters have been operating in the EPC business since 15 years as they earlier operated in Africa (Sudan) and executed orders to the tune of Rs.491.24 crore for Ministry of Utility & Planning and Ministry of Health (Government of Sudan). Driven by the promoter's experience, the company has been gradually expanding its presence in Indian market and during the period, FY15-FY19, VIIPL has completed diverse projects (road, irrigation, buildings etc.) for various State Government (Uttar Pradesh, Kerala, Telangana & Andhra Pradesh) in India with aggregate order value of Rs.713.78 crore.

Subdued financial performance in FY20: As per the audited financials obtained from MCA for FY20, the company has reported degrowth in revenue and PAT. During FY20, revenue, PBILDT and PAT have reduced by 51.73%, 34.70% and 50.46% respectively from FY19 level.

Concentrated order book: VIIPL has a concentrated order book position with approx. 75% of the order book concentrated on orders received from AP Panchayat Raj for construction and improvement of rural roads as a part of rural road connectivity/maintenance project undertaken by the AP Panchayat Raj in various districts of Andhra Pradesh. The single client concentration subjects the revenue to high volatility associated with the movement of the orders, given minimal work execution done for the projects. Hence the timely execution of the orders would be a key credit monitorable, going forward. However, comfort is drawn from project funding backed AIIB to an extent of 70% and balance 30% also tied up with Andhra Bank. The same hence, reduces the counterparty risk associated with delays in project receivables.

Risk associated with fluctuation of input cost: The raw material cost and sub-contracting cost form major portion for total cost of sales for VIIPL. During FY19, raw material cost constituted 65% of the cost of sales as against 56.99% in FY18. The prices of majority of raw materials used (steel, cement, sand) volatile in nature which may have adverse impact on the profitability of the company. However, the company has price escalation clauses in all its contracts (linked to commodity price index for materials and labor) which safeguards the margin against steep hike in input prices; subject to ability of the company to recover the same from Government departments.

Highly competitive industry because of the fragmented and tender-driven nature of business: The construction industry in India is highly fragmented and competitive with several players executing small projects. This coupled with the tender-driven nature of construction contracts poses huge competition and puts pressure on the profit margins of the players.

Key Rating Strengths:

Experienced promoters: The company has been promoted by Mr. K Venkata Satish (Managing Director) and Mr. K Suresh Kumar (Director) who have more than two decades of experience in the business of construction projects. Mr. K. Suresh Kumar manages the day-to-day affairs of the company. He is has graduated in Master of Technology and has nearly three decades of experience in the construction sector and his expertise lies in engineering, quality control, safety standards, tendering and contracting, finance and procurements.

Healthy and growing order book position: VIIPL has healthy order book position with orders in hand aggregating Rs.320 crore (as against Rs.358.70 crore as on January 04, 2019) as on October 31, 2019 which provides revenue visibility for next two years (FY20-FY21). The order book position translates to order book/gross billing of 2.34x based on gross billing for FY19. The company has been gradually expanding its presence in the civil construction space and the order book has witnessed significant growth over the last three years with order received from the Government departments. During FY19, the company has added orders aggregating Rs.317 crore which comprises road work projects received from AP Panchayat Raj Department and funded by Asian Infrastructure Investment Bank and Nationalized banks.

Improved financial performance during FY19: During FY19, VIIPL has reported a Total Operating Income (TOI) of Rs.142.52 crore with robust y-o-y growth of 97.55% against the TOI of Rs.72.15 crore in FY18, at the back of successful execution of orders in hand followed by growth in order book position. The company registered PBILDT of Rs.14.44 crore in FY19 vis-à-vis Rs.8.67 crore in FY18. The operating margins of the company were at satisfactory level in the range of 10%-12% during FY17-19. PBILDT margin marginally decreased by 189 bps during FY19 to 10.13% as against 12.02% in FY18 with reduced margins associated with few orders. In line with PBILDT, PAT level also registered significant y-o-y growth of 1.25x (to Rs.5.39 crore) during FY19.

The financial performance continued to remain satisfactory during H1FY20 with the company reported gross revenue of Rs.61 crore with PBILDT of Rs.6.43 crore and PAT of Rs.2.43 crore. PBILDT margin remained satisfactory at 10.51% during the half year period.

Improvement in capital structure and debt coverage metrics: The capital structure of the company is satisfactory and witnessed improvement during FY19 with overall gearing ratio improving to 0.91x as on March 31, 2019 (as against 1.33x as on March 31, 2018) on account of accretion of profit. The other debt coverage indicators have also been satisfactory with PBILDT Interest coverage at 3.75x in FY19 and Total debt to Gross Cash Accrual (GCA) also improved to 2.09x in FY19 vis-à-vis 3.37x in FY18 on account of increased GCA, despite increased debt level also. The debt level has increased over the last three account closing dates to support the growing scale of operation. The capital structure continued to remain satisfactory as on March 31, 2020.

Satisfactory operating cycle: The operating cycle of the company has been satisfactory with the company usually executing work orders backed by appropriate funding authority and hence the average tenor of receipt of payment for work executed has been within 30 days. Inventory days has also been satisfactory with timely movement of projects in hand. The debtor and inventory days further improved in FY19 and the liquidity position of the company has been satisfactory with adequate cash accruals against low debt repayment obligation. While the company faced delays in recovery of payment for an irrigation project executed in A.P., recovery of majority of dues from the said project and completion of major work for the project provides cashflow support. The company partly relies on its creditors for funding the working capital requirement as the major creditors extend higher credit days against an interest charge which is relatively lower vis-à-vis bank borrowings.

Stable industry outlook: The Government of India has been undertaking several steps for boosting the infrastructure development and reviving the investment cycle in the segment, which was facing a slowdown since past couple of years. A few measures include relaxation of Foreign Direct Investment (FDI) norms for the sector, infrastructure status accorded to affordable housing and fund allocation for projects like development of smart cities, Housing for All by 2022 and Atal Mission for Urban Rejuvenation and Transformation (AMRUT). The same is expected to drive growth opportunities subject to availability of adequate working capital.

Liquidity position - Adequate: The liquidity position of the company is adequate with about 60% working capital utilization and cash and bank balance of Rs.3.81 crore as on March 31, 2020. The company had availed moratorium on interest on working capital facilities for the period March 2020 to August 2020 as per RBI Covid-19 guidelines. However, the company paid the interest amount post moratorium in Sept. 2020.

Analytical approach: Standalone

Applicable Criteria
[Policy in respect of Non-cooperation by issuer]
[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings]
[CARE's Policy on Default Recognition]
[Criteria for Short Term Instruments]
[Financial ratios - Non-Financial Sector]
[Liquidity Analysis of Non-Financial Sector Entities]

About the Company
Vriddhi Infratech India Private Limited (VIIPL) was incorporated in 2014 by Mr. K. Venkata Satish & Mr. K. Suresh and is engaged in civil construction work. The company is engaged in civil construction work with projects spanning across construction of buildings (commercial, institutional, residential and hospital etc.), civil works for power projects, laying of roads and irrigation works. It is registered as a Special Class Contractor in the States of Telangana, Andhra Pradesh and Madhya Pradesh. The client base includes primarily Government entities viz. Public Works Department (PWD) of Andhra Pradesh, Kerala, Telangana, Hindustan Prefab Limited, Panchayat Raj Departments, etc.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	142.52	68.79
PBILDT	14.44	9.43
PAT	5.39	2.67
Overall gearing (times)	0.91	0.59
Interest coverage (times)	3.75	3.64

A: Audited

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years: Please refer Annexure-2

Covenants of rated facility: Detailed explanation of covenants of the rated facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - ST-Bank Guarantees	-	-	-	92.00	CARE A4+; ISSUER NOT COOPERATING*
Fund-based - LT-Cash Credit	-	-	-	6.00	CARE BB+; Stable; ISSUER NOT COOPERATING*
Fund-based - LT-Bank Overdraft	-	-	-	2.00	CARE BB+; Stable; ISSUER NOT COOPERATING*

**Issuer did not cooperate; Based on best available information*

Annexure-2: Rating History of last three years

Sr. No.	Name of the Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Non-fund-based - ST-Bank Guarantees	ST	92.00	CARE A4+; ISSUER NOT COOPERATING*	-	1)CARE A3 (04-Dec-19)	1)CARE A4+ (06-Feb-19) 2)CARE A4+ (18-Jan-19)	1)CARE A4+ (27-Dec-17) 2)CARE A4+ (11-Jul-17)
2.	Fund-based - LT-Cash Credit	LT	6.00	CARE BB+; Stable; ISSUER NOT COOPERATING*	-	1)CARE BBB-; Stable (04-Dec-19)	1)CARE BB+; Positive (06-Feb-19) 2)CARE BB+; Positive (18-Jan-19)	1)CARE BB+; Stable (27-Dec-17) 2)CARE BB+; Stable (11-Jul-17)
3.	Fund-based - LT-Bank Overdraft	LT	2.00	CARE BB+; Stable; ISSUER NOT COOPERATING*	-	1)CARE BBB-; Stable (04-Dec-19)	1)CARE BB+; Positive (06-Feb-19) 2)CARE BB+; Positive (18-Jan-19)	-

**Issuer did not cooperate; Based on best available information*

Annexure-3: Detailed explanation of covenants of the rated facilities: Not Applicable

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Bank Overdraft	Simple
2.	Fund-based - LT-Cash Credit	Simple
3.	Non-fund-based - ST-Bank Guarantees	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.