Vishnu Prakash R Punglia Limited

August 04, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	150.00 (Enhanced from 120.00)	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Revised from CARE BBB; Stable (Triple B; Outlook: Stable)
Long Term / Short Term Bank Facilities	360.00 (Enhanced from 305.00)	CARE BBB+; Stable / CARE A3+ (Triple B Plus; Outlook: Stable/ A Three Plus)	Revised from CARE BBB; Stable / CARE A3 (Triple B; Outlook: Stable / A Three)
Total Bank Facilities	**510.00 (₹ Five Hundred Ten Crore Only)**		

Details of instruments/facilities in Annexure-1.

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Vishnu Prakash R Punglia Limited (VPRPL) considers significant growth in its scale of operations while maintaining profitability margins during FY22 (refers to the period April 01 to March 31) along with growth in its orderbook indicating healthy revenue visibility in the medium term.

The ratings continue to derive strength from established track record of its promoters for more than four decades in execution of water supply projects, reputed clientele with low counterparty risk and adequate liquidity. The ratings also takes cognisance of company's geographically diversified orderbook with increased focus on segment diversification by venturing into road construction and railway contracts.

The above rating strengths are, however, partially offset by VPRPL's moderate capital structure and debt coverage indicators, its presence in a highly fragmented and competitive tender driven construction industry and high working capital intensity of its operations apart from execution risk associated with some of the slow-moving projects of the company.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Significant improvement in its scale of operations while maintaining profitability margins on a sustained basis
- Improvement in its liquidity cushion in terms of unutilized credit lines and gross current asset days below 150 days on a sustained basis
- Improvement in debt coverage indicators with PBILDT interest coverage above 4.50x and total debt/ Gross cash accruals (GCA) below 3x on a sustained basis

Negative factors – Factors that could lead to negative rating action/downgrade:

- Reduction in TOI due to slower execution of orders on hand.
- PBILDT margin falling below 9% on sustained basis
- Deterioration in its overall gearing beyond 1.00x on a sustained basis
- Increase in working capital intensity resulting in higher reliance on bank borrowings thereby adversely affecting debt coverage as well as liquidity

Detailed description of the key rating drivers

<u>Key rating strengths</u>

Significant growth in scale of operations while maintaining its profitability margins during FY22

VPRPL's total operating income (TOI) grew significantly by 71% y-o-y basis to Rs.763.98 crore during FY22 (FY21: 447.44 crore) backed by healthy order book along with an improved execution pace of work orders on hand. VPRPL's revenue growth is expected to be sustained in the medium term considering its strong order book position and commencement of execution of multiple new projects simultaneously. During Q1FY23 (provisional), VPRPL has reported contract receipts of Rs.201 crore.

VPRPL's PBILDT margin remained largely stable at 10.93% during FY22 (10.38% in FY21) as due to presence of price escalation clause in majority of its work orders, mitigating steep increase in the input prices to a large extent. VPRPL's PAT margin improved to 6.01% during FY22 (4.82% in FY21) on account of lower than proportionate increase in interest cost and stable depreciation when compared with the increase in TOI. it's Gross Cash Accruals (GCA) increased to Rs.50.24 crore in FY22 as compared to Rs.25.58 crore in FY21.

Geographically diversified orderbook indicating healthy revenue visibility

As on July 01, 2022, VPRPL had a healthy order book of Rs.4082 crore (including O&M work; excluding L1 contracts) as compared to Rs.1991 crore as on October 01, 2021, forming around 5.34 times of gross receipt of VPRPL for FY22, thereby indicating strong revenue visibility in the medium term. Since the last review, VPRPL is awarded 19 new work orders amounting

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

to Rs.2863 crore (o/s work was Rs.2618 crore). CARE expects VPRPL's order book to grow further as it has been declared as the lowest bidder (L1) for four contracts having total contract value of around Rs.807 crore.

Geographical diversified presence with increased focus on segment diversification and reputed clientele
VPRPL's orderbook is geographically diversified across multiple states viz. Rajasthan (58% of o/s orderbook), Uttar Pradesh (12%), Manipur (11%), Uttarakhand (6%), Madhya Pradesh (4%), and Assam (3%) among others. Furthermore, VPRPL's dependence on single party was moderately lower with its customer base being a mix of state government entities, including urban local bodies which translates into low counter-party credit risk for VPRPL.
While the unexecuted orderbook of VPRPL as on July 01, 2022 is dominated by water supply projects (78%), the company has diversified segmentally and has been awarded EPC projects in road construction, civil construction, sewerage treatment plants, railways, etc, which cumulatively account for 22% of VPRPL's orderbook.

Extensive experience with long-standing association of the promoters with government clients
Mr. Vishnu Prakash Punglia, one of the key promoters, has an extensive experience of around four decades in the construction industry and is instrumental in making strategic decisions for VPRPL. He is supported by second generation of the family and a team of managerial personnel and technical team having relevant experience in their respective fields. VPRPL has an established track record of operations in execution of water resource projects awarded by various government authorities. VPRPL is also getting benefitted from the experience and relationship developed by its promoters as evidenced by its position in the highly competitive industry.

Key rating weaknesses
Working capital intensive nature of operations leading to moderate capital structure & debt coverage indicators
Significant increase in TOI along with high working capital intensity resulted in moderation of VPRPL's overall gearing to around 0.92 times as on March 31, 2022 as compared to 0.68 times as on March 31, 2021. The increase in working capital intensity was met through higher utilisation of working capital facilities and availing mobilisation advances from principal. The moderation in overall gearing is also attributed to debt-funded acquisition of equipment and machineries for scaling up its execution capabilities across various segments and reduce its reliance on subcontracting.
VPRPL's debt coverage indicators although improved remained moderate marked by PBILDT interest coverage of 3.66x in FY22 (FY21: 2.77x) and total debt to GCA of 3.36x in FY22 (FY21: 3.66x).

Execution risk associated with huge order book and moderate dependence on sub-contracting
Considering significant growth in orderbook since the last review, around 64% of VPRPL's order book consist of contracts which are at a nascent stage of execution. Moreover, around seven work orders aggregating to Rs.853 crore are slow moving; constituting around 21% of VPRPL's order book. However, the delay is primarily attributable to the counterparties and are expected to be completed within the revised timelines as extended by the respective authority. Considering execution timeframe of 18-36 months, execution of the projects on hand within envisaged timeframe remains a key monitorable.
VPRPL continued to sub-contract part of its project work which restricts its profitability to an extent. However, it has gradually been increasing its own fleet of resources to reduce its reliance on sub-contracting.

Presence in an intensely competitive and fragmented construction industry
VPRPL is a mid-sized player operating in intensely competitive and fragmented construction industry, wherein projects are awarded on the basis of relevant experience of the bidder, financial capability and most attractive bid price. The competitive intensity is on account of the presence of large number of contractors resulting in aggressive bidding which restricts the margins. Moreover, due to low counterparty credit risk and a relatively stable payment track record associated with projects funded by central and state government bodies, these projects are lucrative for all the contractors and hence remained highly competitive.

Susceptibility of profitability to fluctuations in input prices
The profitability of VPRPL remains susceptible to fluctuations in input prices such as steel, cement, sand etc., which has reflected steep increase in H2FY22. Nevertheless, VPRPL's profitability remained stable during FY22 considering majority of its orderbook has an in-built price escalation clause and the company has received escalation claims in FY22 and Q1FY23 (refers to the period April 01 to June 30).

Liquidity: Adequate
VPRPL's liquidity position remains adequate characterized by sufficient cushion in gross cash accruals of Rs.65-125 crore in FY23-FY25 vis-à-vis its debt repayment obligations of around Rs.30 crore in FY23-FY25 along with modular capex requirements. VPRPL's focus on improving its collection efficiency has resulted in nil debtors' (excluding retention money) outstanding for more than 6 months. Consequently, its Gross Current Asset days and working capital cycle improved to 160 days (176 days in FY21) and 70 days (92 days in FY21) respectively in FY22. Furthermore, its unencumbered cash and bank balances stood at Rs. 5.71 crore (besides lien marked FDR of Rs.24.16 crore) as on March 31, 2022.
VPRPL's operations continue to remain working capital intensive in nature primarily due to its funding requirement towards the security deposits, retention amount and margin money for the non-fund-based facilities. The average utilization of fund-based and non-fun-based limits remained high at 91% and 69% respectively during the trailing twelve months ended June 30, 2022. However, the company has applied for enhancement in its working capital limits by Rs.150 crore (Rs. 50 crore in fund-based limits and Rs.100 crore in non-fund based limits), sanction of which remains crucial from liquidity perspective.

Analytical approach: Standalone

Applicable criteria:
Criteria on assigning Outlook to Ratings and Credit Watch
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Financial Ratios - Non-Financial Sector
Liquidity Analysis of Non-Financial Sector
Rating Methodology - Construction
Policy on Withdrawal of Ratings

About the company
VPRPL was initially formed in 1984 as a partnership concern by Mr. Vishnu Prakash Punglia along with his family members. Subsequently in 2013, the constitution was changed to public limited. VPRPL is primarily engaged in execution of civil construction works involving construction of bridges, Road over bridge (ROB), roads with major focus on execution of WSP on engineering, procurement and commissioning (EPC) basis as well as providing operation and maintenance (O&M) services. The company is registered as 'AA' class contractor with Public Health Engineering Department (PHED), Rajasthan and has long association with various government entities, including urban local bodies.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	June 30, 2022 (Prov.)
Total operating income	447.44	763.98	201.21
PBILDT	46.44	83.52	29.82
PAT	21.55	45.93	14.45
Overall gearing (times)	0.68	0.92	NA
Interest coverage (times)	2.77	3.66	8.40

A: Audited; Prov: Provisional; NA: Not Available

Status of non-cooperation with previous CRA: CRISIL vide its press release dated August 26, 2020 has continued to classify the ratings of VPRPL under "Issuer Not Co-operating" category due to non-availability of requisite information to conduct the rating exercise

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

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

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

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Bank Overdraft		-	-	-	150.00	CARE BBB+; Stable
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	360.00	CARE BBB+; Stable / CARE A3+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Bank Overdraft	LT	150.00	CARE BBB+; Stable	-	1)CARE BBB; Stable (08-Nov-21)	1)CARE BBB-; Stable (06-Jan-21)	1)CARE BBB-; Stable (17-Dec-19)
2	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	360.00	CARE BBB+; Stable / CARE A3+	-	1)CARE BBB; Stable / CARE A3 (08-Nov-21)	1)CARE BBB-; Stable / CARE A3 (06-Jan-21)	1)CARE BBB-; Stable / CARE A3 (17-Dec-19)

*Long term/Short term.

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

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

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Bank Overdraft	Simple
2	Non-fund-based - LT/ ST-Bank Guarantee	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

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

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