

Vasishtha Constructions Private Limited

March 05, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	77.61	CARE A-; Stable (Single A Minus; Outlook: Stable)	Revised from CARE BBB+; Stable (Triple B Plus; Outlook: Stable)
Long Term / Short Term Bank Facilities	312.00	CARE A-; Stable / CARE A2 (Single A Minus ; Outlook: Stable/ A Two)	Revised from CARE BBB+; Stable / CARE A3+ (Triple B Plus ; Outlook: Stable / A Three Plus)
Total Bank Facilities	389.61 (Rs. Three Hundred Eighty-Nine Crore and Sixty-One Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Vasishtha Constructions Private Limited (VCPL) factors in consistent improvement in the financial risk profile backed by improved operating income, profitability, and comfortable capital structure.

The rating also factors in healthy order book with majority of projects funded by central government bodies, experienced promoters, stable profitability margins and adequate liquidity position

The ratings are, however constrained by, segment and geographic concentration of order book, impact of Covid-19 pandemic, moderate working capital cycle, income tax inspections in relation to partners associated with JVs, exposure to intense competition in civil construction sector due to fragmented nature of the industry and negative industry outlook.

Rating sensitivities:

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

- Timely execution of the outstanding order book and collection of receivables within 60 days
- Income from operations exceeding Rs.800 crore coupled with order book of more than 3x

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

- Any delay in envisaged execution of orders in Madhya Pradesh due to ongoing investigation with its JV partner
- Decline in the profitability margins by 10% on sustainable basis

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters: Vasishtha Constructions Private Limited (VCPL), promoted by Mr. M Naga Raju, has been operating in the infrastructure segment for about three decades with major focus on construction of roads & bridges. The promoters have over 25 years of experience in the construction segment which has enabled VCPL to secure orders across various infrastructure segments in regions such as Andaman & Nicobar Islands, Madhya Pradesh, Bihar, Assam, Jharkhand, Maharashtra and Uttarakhand.

Quality order book providing medium term revenue visibility: VCPL has a satisfactory order book position with orders in hand of Rs 1386 crore as on January 31, 2021, which translates to 2.92x of the gross sales of FY20 thereby giving medium term revenue visibility. Further, the company is having L1 position in orders worth of Rs 153.07 crore and have participated in the tenders worth Rs.2,347.06 crore as on February 18, 2021. All the projects are backed by funds governed by agencies of central government such as Central Government Fund, National Bank For Agriculture & Rural Development (NABARD) Fund and North-Eastern State Fund which reduces risk associated with realization of payments.

Consistent improvement in the total operating income with stable profit margins: Total operating income of the company grew by around CAGR of 9.66% from Rs.359.62 crore in FY18 to Rs.474.20 crore in FY20 backed by execution of orders in hand. However, during FY20 the operations are impacted on account of nationwide lockdown due to Covid-19 pandemic resulted in slower execution of orders in the month of February and March 2020.

The PBILDT margin of the company has marginally declined to 13.31% in FY20 as against 13.45% in FY19 primarily on account increase in other administrative expenses. However, the PAT margin has improved marginally by 37 bps from 5.16% in FY19 to 5.53% in FY20. As per unaudited results of 10MFY21, VCPL achieved a total operating income of Rs.392.68 crore.

Comfortable capital structure and debt coverage indicators: VCPL has comfortable capital structure with debt to equity and overall gearing below unity as on March 31, 2020. Despite moderate increase in borrowings to fund the overall growth of the company, with accretion of profits to net worth, overall gearing of the company improved to 0.61x as on March 31, 2020 as

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

against 0.65x as on March 31, 2019. The other debt coverage indicators such as PBILDT interest coverage and Total Debt to GCA continues to remain comfortable at 3.17x and 2.87x respectively for FY20.

Comfortable operating cycle: The operating cycle of VCPL marginally deteriorated from 119 days in FY19 to 128 days in FY20 on account of increase collection days from 94 days in FY19 to 99 days in FY20 primarily due to impact of Covid-19 pandemic in the month of February and March 2020. However, post relaxation of lockdown with improvement in execution and having average collection efficiency more than 95%, the average utilization of fund based working capital borrowings remained comfortable at 70% for the trailing 12 months ending December 2020.

Key Rating Weaknesses

Concentrated order book: Though the workorders are spread across three states and one union territory, the orders are mainly concentrated in Madhya Pradesh (56.8%) and Andaman & Nicobar (38.7%), together contributing more than 95% of the total order book. Further, there is an order book concentration risk with four contracts comprising approximately 75% of the total works in hand which are in the roads and bridges segments, located in Madhya Pradesh and Andaman & Nicobar Islands.

Presence in a highly fragmented and competitive construction industry: VCPL operates in the intensely competitive construction industry with presence of large number of small and medium players resulting in aggressive bidding which exerts pressure on the margins. The construction sector has been facing challenges during the last few years on account of economic slowdown, regulatory changes and policy paralysis which had adversely impacted the financial and liquidity profile of players in the industry. The situation further worsened due to outbreak of COVID-19 pandemic resulting in slowdown in project execution, heavy labour migrations, increase in working capital intensity and fixed cost pressures on cash flows and profitability. However, the government and RBI have introduced various measures to mitigate the impact such as moratorium from debt servicing for six months, extension of additional credit lines along with release of retention money under the Aatmanirbhar scheme etc. Despite the measures taken by the government and RBI, the overall outlook on the construction sector is expected to be negative.

Income tax inspections: Income tax inspections were conducted by government authorities at the Vasishta Constructions P Ltd office in the month of Feb 2021., apropos to ongoing investigation undertaken by authorities on Mantena Constructions P Ltd, a JV partner in some of the projects of VCPL. Based on the inputs of the company, the orders being executed by the company are not affected from the ongoing investigation and the orders are progressing on schedule. Further, there are no adverse findings during the IT raid conducted by the authorities.

Liquidity: Adequate

Liquidity position of the company is adequate marked by generation of GCA of Rs 17.99 crore for H1FY21 vis-à-vis scheduled repayment obligations of Rs.2.30 crore. Due to presence of adequate liquidity in the system, the company did not avail moratorium relief given by lenders, but the company has availed Covid-19 relief loan of around Rs.6.90 crore at an interest rate of 7.5% to fund operations. Post relaxation of lockdown with improvement in execution and having average collection efficiency of more than 95%, the average utilization of fund based working capital borrowings remained comfortable at 70% for the trailing 12 months ending December 2020 with moderate free cash balance of Rs 1.60 crore as on January 31, 2021.

Analytical Approach: Standalone

Applicable Criteria:

[Criteria on assigning 'Outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology – Construction Sector](#)

[Criteria for Short Term Instruments](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Financial Ratios - Non-Financial Sector](#)

About the Company

Incorporated in October, 1991, Vasishta Constructions Private Limited (VCPL) is engaged in construction activities spanning irrigation & flood control, roads & bridges, building & structures, etc. VCPL was promoted by Mr. M Naga Raju, Mr. M Sivarama Raju, Mr. M. S. K. Subba Raju and Mr. M Krishna Chaitanya. The promoters have around three decades of experience in executing civil contracts for government entities and private players in the aforesaid segments.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	454.98	474.20
PBILDT	61.19	63.11
PAT	23.50	26.24
Overall gearing (times)	0.65	0.61
Interest coverage (times)	4.23	3.92

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Covenants of rated instrument / facility: 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	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	57.00	CARE A-; Stable
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	312.00	CARE A-; Stable / CARE A2
Fund-based - LT-Term Loan	-	-	September 2029	20.61	CARE A-; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/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.	Fund-based - LT-Cash Credit	LT	57.00	CARE A-; Stable	-	1)CARE BBB+; Stable (02-Mar-20)	1)CARE BBB+; Stable (03-Jan-19) 2)CARE BBB+; Stable (27-Dec-18)	1)CARE BBB; Stable (18-Dec-17)
2.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	312.00	CARE A-; Stable / CARE A2	-	1)CARE BBB+; Stable / CARE A3+ (02-Mar-20)	1)CARE BBB+; Stable / CARE A3+ (03-Jan-19) 2)CARE BBB+; Stable / CARE A3+ (27-Dec-18)	1)CARE BBB; Stable / CARE A3+ (18-Dec-17)
3.	Fund-based - LT-Term Loan	LT	20.61	CARE A-; Stable	-	1)CARE BBB+; Stable (02-Mar-20)	1)CARE BBB+; Stable (03-Jan-19) 2)CARE BBB+; Stable (27-Dec-18)	1)CARE BBB; Stable (18-Dec-17)

Annexure-3: Detailed explanation of covenants of the rated instrument / 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-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	Non-fund-based - LT/ 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:

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