Vishnu Prakash R Punglia Limited

January 06, 2021

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long Term Bank Facilities	80.00	**CARE BBB-; Stable (Triple B Minus; Outlook: Stable)**	**Reaffirmed**
Long Term / Short Term Bank Facilities	205.00	**CARE BBB-; Stable / CARE A3 (Triple B Minus ; Outlook: Stable / A Three)**	**Reaffirmed**
Total Facilities	**285.00 (Rs. Two Hundred Eighty-Five Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Vishnu Prakash R Punglia Limited (VPRPL) continues to draw strength from extensive experience of its promoters and management in the civil construction industry, established track record of operations of more than three decades along with long standing association with clients. The ratings, further, derive comfort from moderate scale of its operations, healthy order book resulting in strong revenue visibility along with its moderate profitability with presence of price variation clause in majority of its contracts.

The ratings are, however, constrained on account of its moderate capital structure and debt coverage indicators along with high segment concentration of its order book as the same is skewed towards water supply projects which has encountered execution challenges. The ratings, are further constrained, on account of its presence in a fragmented construction sector with tender based nature of operations. CARE also takes cognizance of the company availing the moratorium from its lender as a COVID relief measure (as permitted by the Reserve Bank of India) on its interest obligation on its fund based limits falling due for payment during March to August, 2020.

Rating Sensitivities

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

- Sizeable increase in scale of operations along with greater revenue diversification on a sustainable basis
- Execution of orders within stipulated time frame and timely receipt of contract proceeds
- Improvement in overall gearing below 0.70x
- Improvement in debt coverage indicators with PBILDT Interest coverage above 4.50x and Total Debt/GCA below 3x on sustained basis

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

- Decline in scale of operations by more than 20% from envisaged levels due to slower execution of orders as well as any imposition of penalties due to such delay
- PBILDT margin falling below 8% on sustained basis
- Deterioration in its overall gearing beyond 1.50 times
- Delay in receipt of collection from customers on a sustained basis along with significant increase in working capital requirement thereby adversely affecting debt coverage as well as liquidity indicators of the company

Detailed description of the key rating drivers

Key Rating Strengths

Extensive experience of promoters in the construction industry and long standing association with government clients:

Mr. Vishnu Prakash Punglia, one of the key promoters, has extensive experience of around four decades in the construction industry and is instrumental in making strategic decisions for the company. He is ably supported by second line of management which includes his family member Mr. Manohar Lal Punglia (Director) having experience of more than two decades who looks after the overall operations of the company, Mr. Ajay Punglia (Director) who looks after the finance function of the company and Mr. Sanjay Punglia (Director) a Bachelor of Engineering by qualification who looks after the project execution division of the company. Further, Mr. Vishnu Prakash Punglia is ably supported by other directors as well as by a team of managerial and technical personnel having relevant experience in their respective fields.

Being present in the industry since 1984, it has an established track record of operations in the civil construction industry and has long-standing relationship with various other government authorities like the Public Health Engineering Department (PHED), Rajasthan, Gujarat Water Supply & Sewage Board (GWSSB), Rajasthan Urban Infrastructure Development Project

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

(RUIDP), various divisions of Indian Railways, Military Engineer Services (MES) and urban local bodies from whom it gets majority of its contract work.

Healthy order book which provides strong revenue visibility; albeit high segment concentration:
As on December 01, 2020, the company has healthy order book of Rs.2355.73 crore (including the O&M work) as compared to Rs.1272.93 crore as on November 01, 2019, forming around 5.76 times of gross receipt of VPRPL for FY20 thereby indicating strong medium term revenue visibility. The said order book (excluding O&M work) consists of projects involving water supply projects, civil infrastructure for railways as well as other civil construction work which are likely to be completely executed over a period of next 3-24 months. However, securing all regulatory approvals and completion of work in a timely manner will be crucial.
VPRPL's dependence on single party was moderately lower with its customer base being a mix of government entities, including urban local bodies which also translate into low counter-party credit risk for the company. Further, the company has also mitigated the geographical concentration risk by diversifying its presence to other states from previously being largely a Rajasthan-based player. In addition, a majority portion of the present order book of VPRPL is supported by in-built price escalation clause, which mitigates the risk arising out of adverse movement in raw material prices and labour charges to a large extent. However, the company still derives majority of its revenue from water supply projects thereby reflecting high segment concentration which is also likely to continue in the medium-term.

Moderate scale of operation albeit adverse impact of Covid 19 pandemic on its business operations during 8MFY21:
During FY20, TOI of the company grew by around 8% to Rs.365.82 crore on the back of healthy order book along with moderate execution of orders though the same was lower as compared to its envisaged level for FY20 due to inability of the company to raise invoice for the part work done due to lockdown imposed by Government in March, 2020 to contain spread of Covid-19 pandemic as well as due to management policy of raising the bill only when the budget is available with the concerned department. Further, the same can also be attributed to delay in timely receipt of clearance/site pertaining to several of its orders from the concerned authorities (issue pertaining to land acquisition, regulatory clearances and other external factors). The construction work were halted at its all the sites from March 24, 2020 upto May 31, 2020 following announcement of lockdown.
The temporary stoppage of the work in progress impacted the business and financial risk profile of the company to some extent which is evinced by lower TOI of Rs.183.61 crore reported by the company during 8MFY21. However, considering the fact that the company has resumed work at all its sites along with the fact that the execution remains normally higher in second half; the company expects to achieve its targeted income and profitability level for FY21.

Moderate profitability:
During FY20, PBILDT margin of the company increased marginally by around 9 bps to 11.36% mainly on account of lower cost of material consumed and other expenses. The same can also be attributed to nature of the contracts executed in the fiscal and margin earned on the same. With increase in operating profit margin, PAT margin also increased by around 58 bps to 4.20% in FY20, although proportionately higher than increase in PBILDT margin owing to lower interest expenses as well as due to provision for deferred tax. Overall, its GCA level increased by around 18% to Rs.19.10 crore in FY20 (Rs.16.09 crore in FY19).
Additionally, during 8MFY21, the company has reported PBILDT margin and PAT margin of 12.38% and 4.10% respectively with GCA of Rs.10.34 crore.

Key Rating Weaknesses
Moderate capital structure and debt coverage indicators:
Its capital structure stood moderate with an overall gearing of 1.26 times as on March 31, 2020, improved from 1.50 times as on March 31, 2019 attributed to increase in net worth base backed by accretion of profit to reserve along with scheduled repayment of its term loan.
VPRPL's debt coverage indicators have also exhibited improvement from FY19 level and stood moderate with total debt to GCA of 6.48 times as on March 31, 2020 as against 7.70 times as on March 31, 2019; improved due to increase in its GCA level as well as lower total debt. Further, its PBILDT interest coverage improved to 2.46 times in FY20 as against 2.16 times in FY19 due to lower interest expenses as well as increase in operating profitability.
Additionally, its overall gearing moderated and stood at 1.30 times as on November 30, 2020. Further, its total debt to GCA also moderated to 8.88 times (annualized) as on November 30, 2020 and PBILDT interest coverage remained more or less same at 2.46 times in 8MFY21.

Impact of COVID-19
The Covid-19 pandemic had halted the operations of the company as construction work were halted at its all the sites from March 24, 2020 upto May 31, 2020. With the relaxation in lockdown on construction activities; the execution work resumed gradually with effect from June, 2020 on its construction sites after taking requisite approvals from respective authorities.

Even though the work on the sites have resumed, the pace of work execution was adversely affected during 8MFY21 owing to mass migration of labour and supply chain disruptions. There has been gradual recovery in pace of execution and as articulated by the management currently the company is not facing issues with respect to labor shortage, raw-material procurement/logistics services.
Further, VPRPL has availed moratorium on interest payment for its working capital limit which is provided by the RBI as a Covid-19 relief measure for period commencing from March, 2020 till August, 2020. Further as intimated by the concerned authority at the bank, the cumulative interest for the period of six month on working capital borrowings has been converted into Funded Interest term Loan (FITL) and the same is to be repaid till March 31, 2021. Additionally, the company has also availed working capital loan under Covid-19 emergency credit line (CECL) which is 10% of the existing Fund Based Working Capital Limits (i.e. around Rs.8.00 crore). The same was disbursed in May, 2020 and has tenure of 24 months with an initial moratorium of six months.

Fragmented nature of construction sector with tender based nature of operations:
The construction sector in India is highly fragmented with a large number of small and mid-sized players. This coupled with tendering process in order procurement results into intense competition within the industry, fluctuating revenues and restrictions in profitability. Additionally, continued increase in execution challenges including delays in land acquisition, regulatory clearances, aggressive bidding, interest rate risk and delays in project due to environmental clearance are other external factors that affect the credit profile of industry players.

Liquidity: Adequate
The company's operations are working capital intensive in nature primarily due to funding requirement towards the security deposits, retention amount and margin money for the non-fund-based facilities resulting in almost full utilization of its fund-based working capital borrowings in the trailing 12 month period ended November, 2020 with the company resorting to ad hoc limit to the tune of Rs.5.00-6.00 crore in various months for funding its working capital requirements; albeit the average of maximum utilisation of its non-fund-based limits remained around 75% in the trailing 12 month period ended November, 2020. As on March 31, 2020 the inventory level stood higher at Rs.96.15 crore (Rs.79.79 crore as on March 31, 2019) due to inability of the company to raise invoice for the part work done factored by lockdown imposed by government as well as due to management policy of raising the bill only when the budget is available with the concerned department resulting in elongated working capital cycle of 113 days in FY20; increased from 104 days in FY19 due to increase in inventory period. Further, during 8MFY21 due to realisation of funds from the concerned departments, VPRPL's debtor level (including retention money) declined to Rs.56.75 crore as on November 30, 2020 as against Rs.75.64 crore as on March 31, 2020, though inventory level continued to remain high at Rs.105.13 crore as on November 30, 2020.
The liquidity ratios of the company stood moderate with current ratio and quick ratio of 1.38 times and 0.71 times respectively as on March 31, 2020 with free cash and bank balance of Rs.3.91 crore as on March 31, 2020. Further, the company expects sufficient cushion in cash accruals against debt repayments in the next 3 years (FY21-23). Additionally, its cash flow from operating activities increased and stood at Rs.29.48 crore in FY20 (FY19: Rs.0.59 crore) due to increase in profitability level and decrease in working capital gap.

Outlook on Industry
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 100 smart cities, Housing for All by 2022 and Atal Mission for Urban Rejuvenation and Transformation (AMRUT). However, the sector has faced challenges owing to suspension of construction activities due to spread of COVID-19 pandemic along with reverse migration of labour. Though, the situation has gradually improved and the execution pace has now picked up. Also, various measures have been taken by the government under the Atma Nirbhar scheme, which shall ease up the working capital requirement of the players. However, execution challenges like increasing cost, land acquisition, delay in receipt of regulatory clearances, high risk aversion of public sector banks to infrastructure projects and limited budgetary support beleaguer the industry. Moreover, players also face challenges with respect to recovery from debtors continue along with funds blocked in arbitration. Going forward, companies with better financial flexibility would be able to grow at a faster rate by leveraging upon potential opportunities.

Analytical approach: Standalone

Applicable Criteria
[Criteria on assigning Outlook to Credit Ratings]
[CARE's Policy on Default Recognition]
[Rating Methodology – Construction]
[Criteria for Short Term Instruments]

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

About the Company
Vishnu Prakash R Punglia Limited (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 water supply projects that involve engineering, procurement, commissioning (EPC) activities pertaining to pipelines, water tanks, reservoirs, pump house, filter plants, intake wells, electrical & instrumentation works 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 (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	337.26	365.82
PBILDT	38.02	41.57
PAT	12.23	15.37
Overall gearing (times)	1.50	1.26
Interest coverage (times)	2.16	2.46

A: Audited

As per provisional results for 8MFY21, VPRPL has reported TOI of Rs.183.61 crore with PAT of Rs.7.52 crore.
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 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-Bank Overdraft	-	-	-	80.00	CARE BBB-; Stable
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	205.00	CARE BBB-; Stable / CARE A3

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-Bank Overdraft	LT	80.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (17-Dec-19)	-	-
2.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	205.00	CARE BBB-; Stable / CARE A3	-	1)CARE BBB-; Stable / CARE A3 (17-Dec-19)	-	-

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-Bank Overdraft	Simple
2.	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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