Vishnu Prakash R Punglia Limited (Revised)

November 08, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	120.00 (Enhanced from 80.00)	**CARE BBB; Stable (Triple B; Outlook: Stable)**	**Revised from CARE BBB-; Stable (Triple B Minus; Outlook: Stable)**
Long Term / Short Term Bank Facilities	305.00 (Enhanced from 205.00)	**CARE BBB; Stable / CARE A3 (Triple B; Outlook: Stable/ A Three)**	**Revised from CARE BBB-; Stable / CARE A3 (Triple B Minus; Outlook: Stable / A Three)**
Total Bank Facilities	**425.00 (Rs. Four Hundred Twenty-Five Crore Only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the long-term rating assigned for the bank facilities of Vishnu Prakash R Punglia Limited (VPRPL) considers growth in its scale of operations along with stable profitability despite the impact of COVID-19 led restrictions and improvement in working capital turnover marked by reduction in gross current assets days and working capital cycle.

The rating continues to draw strength from vast experience of its promoters in the construction industry with an established track record of operations of more than four decades in execution in water supply projects (WSP). The ratings, further derive comfort from VPRPL's healthy order book position from strong counter parties, presence of price variation clause in majority of its contracts and limited counter party risk.

The ratings, however, continue to remain constrained on account of its moderate capital structure and debt coverage indicators, stretched liquidity and high skewness of its order book towards WSP. The ratings, are further constrained, on account of its presence in an intensely competitive and fragmented construction sector with tender based nature of operations and susceptibility of its profitability of fixed price projects to volatility in raw material prices.

Rating Sensitivities

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

- Sizeable increase in scale of operations to over Rs.800 crore while maintaining its profitability
- Improvement in overall gearing below 0.70x on a sustained basis
- 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:

- Lower than envisaged growth in TOI by more than 20% due to slower execution of orders
- PBILDT margin falling below 9% on sustained basis
- Deterioration in its overall gearing beyond 1 time
- Increase in working capital intensity resulting in higher reliance on bank borrowings thereby adversely affecting debt coverage as well as liquidity indicators of VPRPL

Detailed description of the key rating drivers

Key Rating Strengths

Growth in scale of operations while maintaining its profitability:

VPRPL's TOI grew by around 23% y-o-y to Rs.450 crore on the back of healthy execution of work orders. Despite the impact of second wave of COVID-19 in Q1FY22, wherein execution of few projects was impacted, VPRPL has reported contract receipts of Rs.280 crore during 7MFY22, as compared to Rs.184 crore during 8MFY21. Considering execution remains skewed in the second half, VPRPL's TOI is envisaged to report significant increase in TOI in FY22.

While VPRPL's PBILDT margin remained stable at 10.85% (FY20: 11.36%), its PAT margin improved to 4.79% in FY21 (FY20: 4.20%) owing to lower finance cost. Overall, its GCA level increased to Rs.25.58 crore in FY21 as compared to Rs.19.10 crore in FY20.

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

Healthy order book which provides strong revenue visibility; albeit high segment concentration:
As on October 01, 2021, VPRPL had a healthy order book of Rs.1990 crore (including the O&M work) as compared to Rs.2356 crore as on December 01, 2020, forming around 3.97 times of gross receipt of VPRPL for FY21 thereby indicating strong revenue visibility in long run. The said order book (excluding O&M work) consists of 42 projects involving water supply projects, civil infrastructure for railways as well as other civil construction work.
The order book is geographically diversified in more than seven states with Rajasthan and Uttar Pradesh each constituting around 32% of orderbook. The diversification reduces the risk arising from any policy or geo-political changes in a particular region as well as exposure to risks related to delay in clearances. The counterparty risk also remains low as the entire order book is awarded by government entities, including urban local bodies. 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 to a certain extent. Nevertheless, VPRPL's focus on WSP has resulted in moderately high segment concentration, which is also likely to continue in the medium-term.
VPRPL has been regarded as L1 bidder for 8 new work contracts amounting to Rs.1517 crore. With an average execution time frame of around 24-30 months, timely execution of the orderbook spread across multiple states remains a key rating monitorable.

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 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 the civil construction industry and has long-standing relationship with various government authorities. VPRPL is also getting benefitted from the experience and relationship developed by its promoters as evinced by its position in the highly competitive industry.

Key Rating Weaknesses
Moderate capital structure and debt coverage indicators:
VPRPL's overall gearing improved to 0.94 times as on March 31, 2021 (1.26 times as on March 31, 2020) on account of increase in net worth base backed by accretion of profit to reserves and lower utilisation of working capital facilities as on balance sheet date. Albeit improved, VPRPL's total debt to GCA and interest coverage continued to remain moderate at 4.39 times as on March 31, 2021 (6.48 times as on March 31, 2020) and 2.91 times in FY21 (2.46 times in FY20) respectively.

Fragmented nature of construction sector with tender based nature of operations:
VPRPL is a mid-sized player operating in an intensely competitive construction industry with presence of large number of contractors. Furthermore, with low counterparty credit risk and a relatively stable payment track record of projects funded by government bodies and removal of bid-bond guarantee has resulted in intense competition. Moreover, aggressive bidding or delay in project progress due to unavailability of regulatory clearances are other external factors that affects the credit profile of industry players.

Liquidity: Stretched
VPRPL's operations are 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. Moreover, VPRPL's order book consist of multiple mid and small size projects resulting in higher working capital intensity. Consequently, the proportion of subcontracting remained high and utilisation of fund-based working capital limits remained almost full during the trailing 12 months ended on September 2021, including availing ad-hoc limits for several months to fund its working capital requirements. Average of maximum utilisation of its non-fund-based limits remained around 70% in the trailing 12 months ended September, 2021. Sanction of enhanced bank facility remains crucial from liquidity perspective.
VPRPL's focus on improving working capital turnover has resulted in improvement of average collection period and inventory holding to 77 days (FY20: 90 days) and 56 days (63 days in FY20) respectively during FY21. Consequently, VPRPL's Gross Current Asset days and working capital cycle reduced to 175 days (FY20: 215 days) and 85 days (FY20: 106 days) respectively in FY21. As on March 31, 2021, VPRPL had free cash and bank balance of Rs.8.43 crore. Further, VPRPL doesn't have any

major term debt and its scheduled repayment for FY22 remains low at around Rs.10 crore as against GCA of Rs.25.58 crore in FY21.

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' and 'credit watch' to Credit Ratings
Rating Methodology – Construction Sector
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

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 (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	H1FY22 (Prov.)
Total operating income	365.82	449.84	217.06
PBILDT	41.57	48.84	NA
PAT	15.37	21.55	NA
Overall gearing (times)	1.26	0.94	NA
Interest coverage (times)	2.46	2.91	NA

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 last three years: Please refer Annexure-2

Covenants of rated instrument/ facility: Please refer Annexure-3

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

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Bank Overdraft		-	-	-	120.00	CARE BBB; Stable
Non-fund-based - LT/ ST-Bank Guarantees		-	-	-	305.00	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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Bank Overdraft	LT	120.00	CARE BBB; Stable	-	1) CARE BBB-; Stable (06-Jan-21)	1) CARE BBB-; Stable (17-Dec-19)	-
2	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST*	305.00	CARE BBB; Stable / CARE A3	-	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 covenants of the rated instrument / 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 Guarantees	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 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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