Vasishta Constructions Private Limited

May 13, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	15.00	**CARE BBB+; Stable (Triple B Plus; Outlook: Stable)**	**Assigned**
Long Term Bank Facilities	90.43 (Enhanced from 77.61)	**CARE BBB+; Stable (Triple B Plus; Outlook: Stable)**	**Reaffirmed**
Long Term / Short Term Bank Facilities	342.00 (Enhanced from 312.00)	**CARE BBB+; Stable /CARE A3+ (Triple B Plus; Outlook: Stable/ A Three Plus)**	**Reaffirmed**
Total Bank Facilities	**447.43 (Rs. Four Hundred Forty-Seven Crore and Forty-Three Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the enhanced bank facilities of Vasishta Constructions Private Limited (VCPL) continue to derive strength from the experienced promoters, long track record of operations and presence in the civil construction industry, healthy order book with majority of projects funded by central government bodies and a stable financial performance during FY21 (refer to period April 01 to March 31). The rating strengths, are however, tempered by segment and geographic concentration of order book, slower progress in execution of the outstanding order book, especially in Andaman & Nicobar, wherein there has been significant time overrun and the company was placed under a negative list of National Highway and Infrastructure Development Corporation Limited (NHIDCL) for a period of year till December 2021. While the company has received Extension of Time (EOT) till March 2022, the slower progress would necessitate further extension which is yet to be approved. For the remaining work also, about 56% of orders in order book have been added in FY22 and yet to witness much progress (only about 3%). With moderate working capital limits and limited liquidity available in the company, the cushion to absorb any additional liability on account of the slower work progress is on the lower side which may result in stress on cashflow position. This apart, the working capital intensity has been increasing with extended gross current asset days in FY21.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:
- Timely execution of the outstanding order book and collection of bill receivables within 60 days.
- Revenue of more than Rs.800 crore while maintaining the profitability.
- Reduction in Gross Current Asset days to below 150 days on sustained basis

Negative Factors- Factors that could lead to negative rating action/downgrade:
- Elongation in collection period beyond 100 days.
- Decline in the profitability margins to below 10% on sustainable basis.
- Impact on the credit profile due to continued slow execution of the project from NHIDCL.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters

VCPL has been operating in the infrastructure segment for about three decades with major focus on construction of roads & bridges. The promoters have around two and a half decades experience in the construction segment which has enabled VCPL to secure orders across various infrastructure segments in regions such as Bihar, Assam, Jharkhand, Maharashtra, Madhya Pradesh, Telangana, Uttarakhand and Andaman & Nicobar Islands.

Satisfactory order book position

VCPL has a satisfactory order book position of Rs.2,668 crore as on December 31, 2021 (Rs.1,386 crore as on January 31, 2021) which translates to 5.47x of gross sales of FY21 (2.92x of gross sales of FY20) thereby providing medium to long term revenue visibility. All the orders are from various government bodies such as National Highways Infrastructure Development Corporation Limited, National Highways Authority of India and irrigation departments.

Satisfactory financial performance during FY21:

The financial performance of VCPL during FY21 remained satisfactory with the company reporting total operating income of Rs.490.11 crore and PBILDT of Rs.65.33 crore.

Stable industry outlook:

The construction industry propels overall economic development of the country and there have been consistent policy announcements by Government of India to support the sectoral growth. Massive outlay of USD 1.97 trillion under The National

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

Infrastructure Pipeline (NIP) and large budgetary allocation corroborate the same. Union Budget 2022 has allocated Rs.48,000 crore for affordable housing under PM Awas Yojna. The National highway network is planned to be expanded by 25,000 km in 2022-23 as part of PM Gati Shakti and accordingly, budgetary allocation of Rs.2 lakh crore is allocated to MoRTH. Furthermore, the increase in allocation towards the Ayushman Bharat scheme - Pradhan Mantri Jan Arogya Yojana (PMJAY) to Rs.6,412 crore would help in building the infrastructure facilities which will ultimately benefit the construction sector. This apart, increased financial assistance of Rs.1 lakh crore from centre to states and acceptance of surety bonds in lieu of bank guarantees for contracts increases avenues of non-fund-based limits for the construction companies. The same will provide benefit & growth opportunity to the companies in the sector.
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.

Key Rating Weaknesses
Concentrated order book
The company has high segmental concentration with only two sectors contributing 100% of order book (i.e., Roads & Bridges (78%) and Micro irrigation (22%)). Further, the order book also has geographical concentration risk with majority of orders concentrated in MP (29%), Tripura (23%), UP (22%) and Andaman & Nicobar (10%) although the same improved since last year.

Slower progress in work orders
The company has added orders in the current fiscal (around 56% of the overall order book) which have not witnessed any significant progress, only about 3% (all together) since the receipt of project work. This apart, another 15% work for one irrigation project has been under completion since more than three years. Hence, satisfactory progress on the new work orders received would be important for revenue visibility.
There has been delay in few other project work, particularly the work order from NHIDCL for work execution in Andaman & Nicobar Islands, received in 2018. As against initial completion date of 2020, the project works have still not been completed. The significant delay has resulted in the company being placed on negative list for a period of one year till December 2021. However as per NHIDCL order, the negative list has been removed in February 2022 which is post the completion of negative period for the company. Significant work on the project has to be completed with EOT available with the company till March 2022. The pending physical progress in 4 NHIDCL projects (as on Feb 2022) is 37% (2 project), 61% and 78% in balance two. Hence, likelihood of completion of the same in the next 3-4 months remains to be seen. Hence, further extension of time by the authority will be critical in order to avoid any negative or adverse implication on the company with respect to delays in the project.
The cashflow position would weaken in case of any liability arising due to slower progress. Any contractual liability arising due to delayed work/non performance would be a key monitorable

Moderate working capital cycle
The operating cycle of VCPL elongated from 128 days during FY20 to 141 days during FY21 on account of elongation in inventory and collection days to 45 days and 105 days respectively during FY21. The collection period remains on higher side on account of retention money. Further, the gross current asset days also have remained elongated at 183 days during FY21 (P.Y: 170 days). The existing working capital limits are on the lower side with respect to size and scale of the operations and company uses mobilization advances to fund the balance requirement.

Presence in a highly fragmented and competitive construction industry: VCPL operates in the intensely competitive construction industry wherein projects are awarded on the basis of relevant experience of the bidder, financial capability and most attractive bid price. The high competition in the construction industry is due to the presence of large number of small and medium players resulting in aggressive bidding which exerts pressure on the margins. However, VCPL has rich experience, long standing track record in the construction industry and cordial relations with its clients which fares well against the peers in the industry.

Liquidity: Adequate
Liquidity is marked by adequate accruals of Rs.20.58 crore during H1FY22, as against moderate repayment obligations during FY22. With a gearing of 0.59x as of March 31, 2021, the issuer has sufficient gearing headroom to raise additional debt for its capex. The average utilisation of the fund-based working capital limits for the last 12-months ending February 28, 2022, stood at 78.33%, with a free cash balance at Rs.0.88 crore as on September 30, 2021.
With the delay in work completion, particularly for NHIDCL, the cash flow has a limited cushion to absorb any additional contractual liability.

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]
[Financial Ratios - Non-Financial Sector]
[Liquidity Analysis of Non-Financial Sector Entities]

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.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	H1FY22 (U/A)
Total operating income	474.20	490.11	222.11
PBILDT	63.11	65.33	32.77
PAT	26.24	24.57	12.20
Overall gearing (times)	0.61	0.59	0.72
Interest coverage (times)	3.92	3.44	3.85

A: Audited; U/A: Un-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	ISIN	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 BBB+; Stable
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	342.00	CARE BBB+; Stable / CARE A3+
Fund-based - LT-Term Loan		-	-	March 2026	33.43	CARE BBB+; Stable
Fund-based - LT-Bank Overdraft		-	-	-	15.00	CARE BBB+; 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 2022-2023	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	57.00	CARE BBB+; Stable	1)CARE BBB+; Stable (01-Apr-22)	-	1)CARE A-; Stable (05-Mar-21)	1)CARE BBB+; Stable (02-Mar-20)
2	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	342.00	CARE BBB+; Stable / CARE A3+	1)CARE BBB+; Stable / CARE A3+ (01-Apr-22)	-	1)CARE A-; Stable / CARE A2 (05-Mar-21)	1)CARE BBB+; Stable / CARE A3+ (02-Mar-20)
3	Fund-based - LT-Term Loan	LT	33.43	CARE BBB+; Stable	1)CARE BBB+; Stable (01-Apr-22)	-	1)CARE A-; Stable (05-Mar-21)	1)CARE BBB+; Stable (02-Mar-20)
4	Fund-based - LT-Bank Overdraft	LT	15.00	CARE BBB+; Stable				

* 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	Fund-based - LT-Cash Credit	Simple
3	Fund-based - LT-Term Loan	Simple
4	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 instrument: CARE Ratings Ltd. 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.

Contact us

Media Contact
Name: Mradul Mishra
Contact no.: +91-22-6754 3573
Email ID: mradul.mishra@careedge.in

Analyst Contact
Name: Puja Jalan
Contact no.: 9160001511
Email ID: puja.jalan@careedge.in

Relationship Contact
Name: Ramesh Bob Asineparthi
Contact no.: +91 90520 00521
Email ID: ramesh.bob@careedge.in

About CARE Ratings Limited:
Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.
With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

****For detailed Rationale Report and subscription information, please contact us at www.careedge.in**