Vishnu Prakash R Punglia Limited

October 27, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	200.00 (Enhanced from 150.00)	CARE BBB+; Positive	Reaffirmed; Outlook revised from Stable
Long Term / Short Term Bank Facilities	760.00 (Enhanced from 360.00)	CARE BBB+; Positive / CARE A3+	Reaffirmed; Outlook revised from Stable

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Vishnu Prakash R Punglia Limited (VPRPL) takes into account successful raising of growth capital via Initial Public Offering (IPO) strengthening the financial risk profile and aiding the company's liquidity cushion. The ratings also factor significant growth in VPRPL's scale of operations along with improvement in its profitability during FY23 (FY refers to the period April 01 to March 31) and Q1FY24 (provisional), which is likely to sustain in the medium term on the back of strong and geographically diversified orderbook and the central/ state government's focus on water resource development projects. The ratings continue to derive strength from its experienced promoters with established track record of operations in execution of water supply projects (WSP) and low counterparty risk.

The above ratings, however, continue to remain constrained on account of high working capital intensity of operations leading to significant blockage of funds as retention money/ security deposits, its presence in a highly fragmented and competitive tender driven construction industry and execution risk associated with slow moving/ recently awarded projects which are at nascent stage of execution.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in its operational metrics with TOL/TNW below unity and built up of adequate liquidity cushion in terms of unutilised working capital limits
- Substantial increase in TOI through timely execution of the current orders in hand while maintaining its profitability at the existing level on a sustained basis.
- Improvement in geographical and segmental diversification with lower counterparty risk

Negative factors

- Decline in PBILDT margin below 10% on a sustained basis
- Increase in working capital intensity thereby adversely affecting TOL/TNW above 1.75 times

Analytical approach: Standalone

Outlook: Positive

The revision in the outlook to 'Positive' factors expected growth in VPRPL's scale of operations backed by healthy orderbook position and sustenance of its healthy profitability margins. CARE Ratings Limited (CARE Ratings) also expects liquidity to improve with proposed enhancement in bank guarantee limits, a part of which is expected to be utilized for releasing retention money held by principal. The outlook, however, may be revised to 'Stable' in case of further increase in of lower than envisaged growth in TOI or lower than envisaged improvement in liquidity due to further increase in working capital intensity.

Detailed description of the key rating drivers:

Key strengths

Improvement in capital structure through raising of growth capital via IPO

VPRPL has raised equity of Rs.373.11 crore (Rs.308.61 crore by issuing 3.12 crore equity shares at Rs.99 each through an IPO in September 2023 and Rs.64.50 crore in December 2022 through pre-IPO placement), with Rs.216 crore earmarked for working capital requirements and general corporate purposes. As per management's submission, entire proceeds earmarked for working capital purpose has been utilised.

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

Consequent to above and healthy accrual of profit to reserves, VPRPL's capital structure improved significantly marked by overall gearing of 0.79x as on March 31, 2023 (FY22: 1.04x). Similarly, TOL/ TNW has also improved to 1.47x as on March 31, 2023 (FY22: 1.79x). VPRPL's debt coverage indicators marked by PBILDT interest coverage and TD/GCA also improved to 5.18x (PY: 3.61x) and 2.67x (PY: 3.74x) respectively during FY23.
Furthermore, with receipt of IPO proceeds in September 2023, the capital structure is expected to further improve significantly going forward.

Growing scale of operations with improved profitability
During FY23, VPRPL's TOI increased significantly and was higher than envisaged at Rs.1168.40 crore, marking an y-o-y growth and four year Compounded Annual Growth Rate (CAGR) of 49% and 46% respectively. The growth momentum is likely to continue in the near term backed by its strong and geographically diversified orderbook and focus of the central/state government on water resource development projects aiding faster execution.
With scaling up of operations and execution of projects having better margins VPRPL's PBILDT margin improved to 13.40%, as compared to 9.3%-11% during last 3 years ended FY22.
During Q1FY24 (Provisional), VPRPL reported a TOI of Rs.278 crore and PBILDT margin of 11.75%. Backed by strong orderbook, faster execution pace in the second half, CARE Ratings expects the growth momentum to continue and report TOI of around Rs.1750 crore with PBILDT margin in the range of 11-13% during FY24.

Healthy orderbook position with focus on gradual geographical and segmental diversification
VPRPL had an outstanding order book of Rs.4362 crore as on September 16, 2023 as against Rs.3467 crore as on April 01, 2023, translating into healthy revenue visibility of 3.73x of FY23 TOI. VPRPL has added orders worth ~Rs.1378 crore during last 6 months ended September 2023. Around 51% of the orders in the unexecuted orderbook pertains to orders awarded under Jal Jeevan Mission which is being funded by the central and state government in equal proportion. VPRPL has also been declared as an L-1 bidder for orders worth Rs.3866 crore.
Furthermore, the geographical concentration of the orders has reduced with orders from Rajasthan constituting around 53% of the orderbook as on September 16, 2023 (74% as on April 01, 2023), followed by Madhya Pradesh (15%), Uttar Pradesh (14%), Manipur (8%) and balance 10% from other six states. Though currently, the orderbook is focused on WSPs at around 79% of its orderbook, VPRPL is focusing on diversification into railway and road segment, which currently constitutes around 9% and 6% of its orderbook respectively.

Extensive experience with long-standing association of the promoters with government clients
The promoters have an extensive experience of around four decades in the construction industry and are supported by 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 WSPs across multiple states.

Key weaknesses
Execution risk associated with projects at nascent stage of execution
VPRPL remains exposed to project execution risk, as around 31% of its orderbook pertains to recently awarded projects which are currently at nascent stage of execution (billing of less than 5%). Furthermore, execution of large part of its orderbook is running with delays; with levy of liquidated damages on three projects in UP, forming around 2.59% of the orderbook.

However, orders in Rajasthan still constitutes a significant portion where VPRPL has an established base, which mitigates the execution risk to an extent. Also, since WSPs have a long gestation period requiring clear right of way (RoW) and permissions from the principal, extension is usually granted without any penalties on the company since the delays are largely attributable to the counterparties. Nevertheless, timely execution of the orderbook including nascent stage projects as well as slow moving projects within envisaged timelines shall remain crucial from credit perspective.

Working Capital Intensive nature of operations
The construction segment is inherently working capital intensive primarily due to funding requirement towards the security deposits, retention amount and margin money for the non-fund-based facilities. Furthermore, due to rapid scaling up of operations across multiple states along with limited flexibility in terms of availability of non-fund based limits, VPRPL's Gross Current Assets (GCA) days and working capital cycle, which was already elongated, stretched further to 204 days (FY22: 184 days) and 104 days (FY22: 95 days) respectively as on March 31, 2023.
With over 50 projects under execution across ten states, CARE Ratings expects VPRPL's working capital requirements to increase further going forward. However, with expected utilisation of proposed bank guarantee limits to release retention money, working

capital intensity is expected to reduce, nevertheless, efficient management of working capital requirements and availability of cushion in terms of unutilized credit lines remains crucial from the credit perspective.

Presence in an intensely competitive and fragmented construction industry
VPRPL is a mid-sized player operating in intensely competitive and fragmented construction industry, wherein the projects are awarded based on 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 execution period of contracts awarded to VPRPL usually ranges from 12 - 30 months. Thus, its profitability remains susceptible to fluctuations in input prices. Nevertheless, VPRPL's majority of the orderbook has in-built price escalation clause, which mitigates the risk arising out of adverse movement in input prices to a large extent.

Liquidity: Adequate

The liquidity position of the company continues to remain adequate and is further aided by receipt of IPO proceeds of Rs.308.61 crore during Q2FY24, sufficient cushion in its GCA vis-à-vis debt repayment obligations, healthy collection efficiency against monthly billings and free cash and bank balance of Rs.38.75 crore as on March 31, 2023.
Average utilisation of fund-based and non-fund-based limits remained high at 93% and 87% respectively during the trailing 12 months ended September 2023. However, proposed enhancement to the tune of Rs.450 crore (FB limits: Rs.50 crore and NFB limits: Rs.400 crore) is expected to aid the liquidity cushion of the company.

Applicable criteria

Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Construction
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Industrials	Construction	Construction	Civil Construction

VPRPL (CIN: U45203MH2013PLC243252) 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 Company and in September 2023, the company got listed on Bombay Stock Exchange (BSE) and National Stock Exchange (NSE).
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 Water Supply Projects (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, 2022 (A)	March 31, 2023 (A)	June 30, 2023 (UA)
Total operating income	785.61	1168.40	278.17
PBILDT	86.91	156.62	32.68
PAT	44.85	90.64	16.44
Overall gearing (times)	1.04	0.79	NA
Interest coverage (times)	3.61	5.18	NA

A: Audited UA: Unaudited; NA: Not Available; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: CRISIL vide its press release dated January 16, 2023 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: Annexure-4

Lender details: Annexure-5

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		-	-	-	200.00	CARE BBB+; Positive
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	760.00	CARE BBB+; Positive / 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 2023-2024	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
1	Fund-based - LT-Bank Overdraft	LT	200.00	CARE BBB+; Positive	1)CARE BBB+; Stable (03-May-23)	1)CARE BBB+; Stable (04-Aug-22)	1)CARE BBB; Stable (08-Nov-21)	1)CARE BBB-; Stable (06-Jan-21)
2	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	760.00	CARE BBB+; Positive / CARE A3+	1)CARE BBB+; Stable / CARE A3+ (03-May-23)	1)CARE BBB+; Stable / CARE A3+ (04-Aug-22)	1)CARE BBB; Stable / CARE A3 (08-Nov-21)	1)CARE BBB-; Stable / CARE A3 (06-Jan-21)

*Long term/Short term.

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

Annexure-4: Complexity level of the various instruments rated

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

Annexure-5: Lender details

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

Note on the 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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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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