

VPR Mining Infrastructure Private Limited

January 05, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	175.00 (Reduced from 188.50)	CARE A-; Stable	Reaffirmed
Long-term / Short-term bank facilities	795.00 (Enhanced from 720.00)	CARE A-; Stable / CARE A2	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of the ratings assigned to the bank facilities of VPR Mining Infrastructure Private Limited (VPR) continues to consider the extensive experience of management with established track record of operations, established client relationship with presence of long-term contracts coupled with strong counterparty and presence of large fleet of heavy equipment with high entry barriers into industry. The ratings also take into account the stable scale of operation with moderate profitability in FY23 [FY refers to the period April 01 to March 31] and H1FY24 on back of healthy orderbook position which provides medium to long-term revenue visibility. Furthermore, the rating is underpinned by the improvement in capital structure on account of regular debt repayment and accretion of profits to the net worth.

However, the rating remained constrained by need of continuous debt-funded capex towards equipment purchase leading to moderation in debt service coverage ratio (DSCR), deterioration in collection days due to long pending dues, volatile input costs with high reliance on subcontracting, slow moving orders particularly in irrigation segment, geographic and client concentration risk, tender-driven nature, and regulatory risk in the mining industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increase in the scale of operations above ₹2,500 crore along with improvement in the PBILDT margin above 17% on a sustained basis
- Improvement in gearing below 0.20x and DSCR above 2.00x on a sustainable basis

Negative factors

- Overall gearing deteriorated to 1.20x on as sustained basis
- Collection period going above 90 days on a sustained basis.

Analytical approach: Standalone

Outlook: Stable

CARE Ratings Limited (CARE Ratings) believes that the entity will continue to benefit from the extensive experience of the promoters and management in the industry. Furthermore, it is expected that the company will improve its financial performance going further on back of healthy orderbook position.

Detailed description of the key rating drivers:

Key strengths

Experienced management and established track record of operations

VPR was founded by V. Prabhakar Reddy, who has experience for more than three decades in the mining industry with operations involving OB removal, mining works involving excavation & transportation of minerals along with execution of few irrigation projects. V Prashanthi Reddy, Director of the company, has experience of two decades and looks after the CSR and skill development activities at VPR. Charan Reddy, Director, is an engineering graduate with 20 years of experience in execution of mining projects and is responsible for successful completion of mining projects ahead of schedule. Narayan is a graduate in arts from Osmania university with experience in commercial and administration activities for more than 30 years and VPR benefits from his relationships with stakeholders and is solely responsible for equipment, logistic and planning of the day-to-day operations alongside with Niranjana Reddy, who has more than 20 years of experience in execution of mining and irrigation projects. The promoters are well-supported by qualified and experienced engineers with prior work experience in infrastructure industry.

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

Established client relationship

The company has been able to establish strong relationships with its clients, which helps the company in bagging repeat orders. The clients of VPR include subsidiaries of Coal India Limited (CIL), The Singareni Collieries Company Limited (SCCL), National Thermal Power Corporation Limited (NTPC Limited). Furthermore, the contracts mainly comprise income from OB removed and run over the period of contract. The major cost for VPR for such services is the diesel cost for plying the equipment, thus exposing the company to volatility in the diesel prices. While the diesel costs are pass-through in nature, there is generally a time-lag before the same can be built into the billing cycle. Furthermore, the cost of labour, which is another major cost has an escalation clause, which is linked to wholesale price index (WPI) index. The majority of the contracts have escalation clause built into them, which mitigates the risk of increase in the input price to a certain extent.

High barriers to entry with niche market position

In the mining sector, there are high barriers to entry on account of stringent requirements to participate for tender/e-auctions, such as technical qualification coupled with required asset-base to execute projects. Since inception, the company has been developing its asset portfolio with requisite equipment and skilled and qualified team to meet the growing scale of operations resulting in establishing a niche position in the market for major public sector units (PSU) orders.

Large fleet of heavy equipment

VPR is regularly developing its large fleet of heavy equipment enabling execution of large sized contracts. As on date the company has around 1,118 heavy vehicles including 126 excavators, 719 tippers, 69 dozers, etc. Majority of the fleet is from reputed vendors like Scania, Eicher, Bharat Benz, Komatsu, etc. This, apart the company has collaborated with the original equipment manufacturer for the periodic repairs and maintenance of its fleet. Although, the contribution of the same towards VPR profitability is not significant as of now, it helps the company to reduce its downtime in case of any break-down and helps the company to save on its annual maintenance costs for its fleet.

Long-term contracts with strong counterparty

VPR has outstanding orderbook of Rs. 28,927 crore as on November 30,2023 which further translates to 16.23x of gross billing of FY23 (A), indicating long-term revenue visibility. In H1FY24, the company has been awarded with a Mine Development cum Operator (MDO) order worth of Rs. 11,753 crore from National Thermal Power Corporation (NTPC) for period of 10 years at Chhattisgarh . However, there are slow-moving irrigation orders of ₹3,776 crore, excluding which the orderbook to gross billing (FY23) stands at 14.11x. Irrigation orders are slow moving due to land and local clearance issue. VPR's orderbook tenor varies from four years to 55 years , the weighted average active order book to gross revenue (FY23) ratio is about 5.35x in the next three years. Furthermore, the company has a clause in contracts with its counter parties that 10-15% penalty would be levied if there is 10% shortfall from the minimum volume to be handled as stipulated in contract. However, VPR has delivered the minimum volume annually without attracting any penalty in given period.

Stable scale of operation in FY23 and H1FY24

In FY23, the total operating income of VPR increased marginally to ₹1,784.94 crore (FY22: ₹1705.78 crore) on back of timely execution of existing orders. Going forward, the revenue is expected to improve on account of addition of new MDO order. The operating profit and operating margin reported slight decline in FY23 to ₹268.89 crore (FY22: ₹281.62 crore) and 15.06% (FY22: 16.49%), respectively. The said decline was on account of increase in raw material cost which the company was not able to fully pass on. However, in FY23 (A), the profit after tax (PAT) and profit margin has shown thin improvement to ₹108 crore (FY22: ₹101.69 crore) and 6.06% (FY22: 5.96%), respectively. The improvement in PAT was due to lower finance cost and increase in non-operating income. Going further, the operating and profit margin is expected to be in line with the FY23 margins.

Improvement in capital structure and debt coverage metrics

The debt profile of VPR comprises of term loan and working capital borrowings. The overall gearing improved to 0.41x on March 31,2023 as against 0.64x as on March 31,2022 resulted in improvement in capital structure of the company. The said improvement was on account of timely repayment of term loan and accretion of profits to net worth. The other debt coverage indicators also improved and continued to remain at satisfactory levels. Total Debt/GCA improved to 1.47x as of March 31, 2023 (PYE: 1.92x) and PBILD interest coverage ratio stands at 8.08x in FY23 (7.18x in FY22) primarily due to repayment of term loan and lower interest expenses in FY23. As of September 30, 2023, the overall gearing stood at 0.34x with TDGCA of 2.64x. For H1FY23, interest coverage ratio stood at 8.30x.

Stable industry outlook

India's mining sector is one of the country's most important industries, and many industries rely on it for essential raw resources. The global mining market grew from US\$2022.6 billion in 2022 to US\$2145.15 billion in 2023 at a compound annual growth rate (CAGR) of 6.1%. The Russia-Ukraine war disrupted the chances of global economic recovery from the COVID-19 pandemic, at least in the short term. The war between these two countries has led to economic sanctions on multiple countries, a surge in commodity prices, and supply chain disruptions, causing inflation across goods and services and affecting many markets across

the globe. The mining market is expected to grow to US\$2775.5 billion in 2027 at a CAGR of 6.7%. Rise in infrastructure development and automotive production are driving growth in the metals and mining sector in India. India is the world's second-largest coal producer and has the world's fifth-largest coal reserve. India has a vast mineral potential with mining leases granted for a longer duration of 50 years. Two opposing forces are at play in the mining and metals sector: resource scarcity and product innovation.

Inclusion of the private sector in the mining industry has played a dominant role in increasing mineral production accounting for 67.33% of the total value.

Key weaknesses

Deterioration in operating cycle albeit remained satisfactory

VPR operates in an industry that has a high working capital requirement. The company relies on working capital limits for its daily operations for power & fuel along with payments to labor and participation in tender/e-auction. The operating cycle deteriorated albeit remained satisfactory at 81 days in FY23 (PY: 72 days) with collection days at 91 days in FY23 (PY: 87 days). The company realizes bills within 60 days from the counterparties pertaining to MDO and OB removal. However, there has been a slight delay in receivables from irrigation projects resulting in collection period above three months. With timely receipt of bills, VPR is clearing the dues to its creditors without much delay. Overall, the operating cycle though increased to 91 days in FY23, remains at satisfactory level. Furthermore, the operating cycle is expected to improve to below 90 days due to expectation of realisation of long pending dues from irrigation projects.

Continuous need of debt-funded capex towards equipment purchase: The operation of the company is capital intensive in nature as the company must continuously incur capex for procuring heavy earthmoving equipment (like dumpers, excavators, bulldozers, etc.) and other mining equipment (like compactor, drillers, cranes, etc.) for replacement purpose. The company has incurred a significant amount of capex during last couple of fiscals for increasing its fleet size for executing orders in hand and also for replacing older equipment. VPR has to rely on equipment loans to fund the proposed capex, which will enable the company to execute the orders in a timely manner.

Geographic and client concentration risk and presence of slow-moving orders in order book

VPR has two major Mine Developer and Operator (MDO) orders in hand which comprises about 69% of the total outstanding orders as on November 30, 2023. Though it is named as MDO projects, however, overburden removal and coal excavation is the only scope of work for VPR. Recently, the company received a MDO project of Rs. 11,753 crore (41%) from National Thermal Power Corporation Limited for the period of 10 years at Raipur, Chhattisgarh. Last year, in FY23, the company was awarded with ₹8,360 crore of MDO order from Punjab State Power Corporation Limited for a period of 55 years having ₹8,233 crore (28%) outstanding order value as on November 30, 2023. Out of the balance 31% outstanding orders, about 14% of the orders are from Coal India Limited Wholly owned subsidiaries (CCL, MCL & NCL) of ₹4,011 crore, irrigation project from A.P. government of ₹3,567 crore (12%) followed by overburden removal order from the Singareni Collieries Company Limited of ₹1,153 crore (4%) and irrigation order from RK Infracorp Private Limited of ₹209 crore (1%).

Despite concentration in order book towards MDO orders and subsidiaries of CIL, the same is offset by the strong credit profile of the counterparties. Irrigation projects worth of ₹3,776 crore in the states of Telangana and Andhra Pradesh are slow moving and got delayed due to availability of funds with the Government coupled with the delay in land acquisition and design approvals.

Volatile input costs with high reliance on subcontracting

About 86% of the total cost of sale of VPR comprises of two major cost elements i.e. expenses on power & fuel/ transportation (61%) and subcontracting cost (25%). VPR continues to deploy subcontracting of labour & equipment for faster execution considering the highly capital-intensive nature of operations along with a view to avoid penalty towards delay in execution of work order. Furthermore, VPR's operating margin is majorly protected by price escalation clause in all contracts. The incremental cost is adjusted in the subsequent bill receipts of VPR.

Tender-driven competition and regulatory risk in the mining industry

The tender-driven nature of contracts poses huge competition and puts pressure on the profit margins of the players. The Indian mining industry is highly regulated by the government of India, as the risk is attached to ban on mining activities of its client due to sudden change in government policy. Furthermore, as per the amendment in Mines and Minerals (Development and Regulation) Act, 1957, the existing mining leases would be deemed to be extended from the date of their last renewal up to March 31, 2030 (in the captive miners). However, the company is a contractual overburden remover for SCCL, CIL, etc., mines, which are unlikely to be affected by the new regulations.

Liquidity: Adequate

Adequate liquidity is characterized by generation of cross cash accruals of ₹202.68 crore as against debt repayment of ₹127.81 crore for FY24. Due to capital-intensive nature of business and continues requirement to increase asset base to meet growing scale, VPR is increasing its asset base regularly. In FY23, the addition to fixed asset was mostly funded through internal accruals.

The repayment of term loans is spread across for 3-4 years as against contractual tenor of 5-6 years leading to asset-liability mismatch. Nevertheless, the same is offset by the adequate liquidity position of the company which is marked by sufficient cash accruals generated of ₹100.58 crore for H1FY24. Furthermore, the average working capital utilization for last 12 months ended September 30, 2023, stood at 20.70%. This apart, VPR has cash and bank balance of ₹6.22 crore as of March 31, 2023.

Assumptions/Covenants: Not Applicable

Environment, social, and governance (ESG) risks: Not Applicable

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](#)

[Service Sector Companies](#)

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Commodities	Metals & Mining	Minerals & Mining	Industrial minerals

VPR based at Hyderabad, Telangana, was set up in 1990 as a sole-proprietorship firm by V. Prabhakar Reddy. Later, in 2008, it was reconstituted as a private limited company to its present nomenclature. VPR has been involved in business of overburden (OB) removal, coal excavation and transportation for over two decades now and carrying out these activities for reputed PSU.

Currently, the company has reduced mining operations and relies mostly on contracts pertaining to OB removal. Apart from mining and OB works, VPR also diversified into irrigation projects in Andhra Pradesh and Telangana. The outstanding value of order book stood at ₹28,927 crore as on November 30, 2023 (as against Rs.19,194 crore as of November 30, 2022) with geographically-diversified operations across six states (Jharkhand, Telangana, Andhra Pradesh, Odisha, Chhattisgarh & Madhya Pradesh) in India. However, the projects in irrigation segment (in Telangana and Andhra Pradesh) are slow moving. Excluding the slow-moving orders, the order book stands at ₹25,151 crore providing order book to sales ratio of 14.11x. VPR demonstrated established track record with timely completion of works and executed orders for reputed clients namely, NMDC Limited (erstwhile National Mineral Development Corporation), The Singareni Collieries Company Limited, Coal India Limited etc.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (UA)
Total operating income	1,708.23	1,784.95	886.58
PBILD	281.62	268.89	139.31
PAT	101.69	108.00	58.19
Overall gearing (times)	0.64	0.41	0.34
Interest coverage (times)	7.24	8.15	8.30

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

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: 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		-	-	-	174.00	CARE A-; Stable
Fund-based - LT-Cash credit		-	-	-	1.00	CARE A-; Stable
Non-fund-based - LT/ ST-Bank guarantee		-	-	-	795.00	CARE A-; Stable / CARE A2

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-Term loan	LT	-	-	-	1)Withdrawn (04-Jan-23)	1)CARE A-; Stable (17-Jan-22) 2)CARE BBB+; Stable (20-Apr-21)	-
2	Fund-based - LT-Cash credit	LT	1.00	CARE A-; Stable	-	1)CARE A-; Stable (04-Jan-23)	1)CARE A-; Stable (17-Jan-22) 2)CARE BBB+; Stable (20-Apr-21)	-
3	Fund-based - LT-Bank overdraft	LT	174.00	CARE A-; Stable	-	1)CARE A-; Stable (04-Jan-23)	1)CARE A-; Stable (17-Jan-22) 2)CARE BBB+; Stable (20-Apr-21)	-
4	Non-fund-based - LT/ ST-Bank guarantee	LT/ST*	795.00	CARE A-; Stable / CARE A2	-	1)CARE A-; Stable / CARE A2 (04-Jan-23)	1)CARE A-; Stable / CARE A2 (17-Jan-22) 2)CARE BBB+; Stable / CARE A2 (20-Apr-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	Fund-based - LT-Cash credit	Simple
3	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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