

Velko Infratek Projects Private Limited

March 04, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	14.58	CARE BB-; Stable; ISSUER NOT COOPERATING*	Rating moved to ISSUER NOT COOPERATING category
Long Term / Short Term Bank Facilities	44.00	CARE BB-; Stable / CARE A4; ISSUER NOT COOPERATING*	Rating moved to ISSUER NOT COOPERATING category

Details of instruments/facilities in Annexure-1.

*Issuer did not cooperate; based on best available information.

Rationale and key rating drivers

CARE Ratings Ltd. has been seeking information from Velko Infratek Projects Private Limited to monitor the rating(s) vide e-mail communications dated January 08, 2024, to February 26, 2024, and numerous phone calls. However, despite our repeated requests, the company has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE Ratings Ltd. has reviewed the rating on the basis of the best available information which however, in CARE Ratings Ltd.'s opinion is not sufficient to arrive at a fair rating. The rating on Velko Infratek Projects Private Limited's bank facilities will now be denoted as CARE BB-; Stable/CARE A4; ISSUER NOT COOPERATING*.

Users of this rating (including investors, lenders, and the public at large) are hence requested to exercise caution while using the above rating(s).

The ratings assigned to the bank facilities of Velko Infratek Projects Private Limited (VIPPL) continues to be constrained due to moderate total operating income during FY23 [FY refers to the period April 01 to March 31] and decline in profitability margins, geographically concentrated order book position, volatile input cost and increased reliance on sub-contracting, tender based nature of operations & intense competition in the civil construction industry. However, the ratings continue to derive strength from experienced promoters, satisfactory order book position, comfortable capital structure and debt coverage ratios, escalation clause in input prices and stable industry outlook.

Analytical approach: Standalone

Outlook: Stable

Detailed description of the key rating drivers:

At the time of last rating on April 03, 2023, the following were the rating strengths and weaknesses (updated for the information available from MCA)

Key weaknesses

Moderate total operating income during FY23 and decline in profitability margins: During FY23, the company reported a total operating income (TOI) of Rs. 66.76 crore which is 5% higher than a TOI of Rs. 63.61 crore in FY22. The profitability of the company in FY23 witnessed deterioration in both operating profit and net profit levels. The PBILDT of the company on absolute terms has reduced to Rs 6.53 crores (PY: Rs. 7.92) and the PAT on absolute terms has declined to Rs. 2.06 crore (PY: Rs 3.05 crore). The profitability margins of the company marked by PBILDT margin and PAT margin remained at 9.78% (PY:12.45%) and 3.08% (PY: 4.80%) respectively in FY23.

Geographically concentrated order book position: The company continues to be exposed to geographical concentration risk as 80.00% of the order book is being executed in Andhra Pradesh and the balance 20.00% in Telangana. Apart from this, ~95% of the orders are concentrated in the segment of water supply & sanitation and irrigation, Whereas the other ~5% of orders are in the drainage segment as per the order book dated February 28, 2023. Nevertheless, the majority of the order book is being funded by the Asian Infrastructure & Investment Bank (AIIB) and central government of India agencies which mitigates the risk associated with the realization of payments.

Volatile input costs and increased reliance on sub-contracting: In FY22, the raw material expense decreased to Rs.9.00 crore from Rs.10.63 crore in FY21 witnessing a 15.40% decline. Whereas the company's reliance on the sub-contracting expenses increased during FY22 stood at Rs.38.07 crore as against Rs.28.59 crore in FY21. The sub-contractor expense to cost of sales was 60% in FY21 and it has gone up to 70% in FY22. The rise is mainly to ensure the timely execution of work-in-hand coupled with the asset-light model adopted by the company. The same has led to reduced wastage of resources and execution of orders

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

through joint ventures and subcontracting of labour-intensive works (such as pipeline laying, valve fixing etc.) & specialized activities on a back-to-back basis.

Tender-based nature of operations in the intensely competitive civil construction industry:: The company receives all its work orders from government companies and constitutes 100% of its order book position. All these are tender-based, and the revenues are dependent on the company's ability to bid successfully for these tenders and complete the works within the envisaged timeline and cost. Profitability margins come under pressure because of the competitive nature of the industry. However, the promoters' long-standing industry experience of more than four decades and the operating efficiency of the company mitigate this risk to a great extent.

Key strengths

Experienced promoters: VIPPL is promoted by Mr. V. Rama Rao, the Managing Director of the company. He is a Civil Engineer and had executed many civil construction projects over more than four decades as a sole proprietor. VIPPL received a Special Class Civil Contractor status in May 2015. It is qualified to tender works in all engineering departments of the state Government of Andhra Pradesh (GoAP). Mr. V. Rama Rao had executed more than 38 major works in drinking water and underground drainage systems. Along with him, Mr. Kommineni Gokul, Director of VIPPL who is a qualified B.Tech (Mechanical) and MBA, looks after the overall administration of the company. Apart from this, the company also has a well-qualified and experienced team of project managers and supervisors down the line.

Satisfactory order book position: The company continues to have a satisfactory order book position with orders in hand aggregating to Rs.342.99 crore as on February 28, 2023. The present value of the works on hand translates to 5.39x of FY22 revenue providing a comfortable medium to long-term revenue visibility.

Escalation clause in input prices: Concrete, steel and cement are the major inputs for any construction entity, the prices of which are volatile. However, VIPPL has built price escalation clauses for raw materials in all the civil construction projects which reduce the risk of an increase in raw material prices.

Comfortable capital structure and debt coverage ratios: The company's debt profile majorly comprises term loans for equipment, unsecured loans by promoters & related parties and working capital borrowings. The capital structure of the company is satisfactorily marked by overall gearing of 0.62x as on March 31, 2022. The PBILDT/interest coverage marginally declined, however, remained satisfactory at 1.97x for FY23 (FY22: 2.22x). Also, the other debt coverage indicator, Total Debt/GCA deteriorated to 9.74x in FY23 from 6.46x in FY22 mainly on account of deterioration in GCA levels and higher debt levels during FY23.

Stable industry outlook: The infrastructure sector has become the biggest focus area for the Government of India. The construction industry contributes around 8% to India's Gross domestic product (GDP). Growth in infrastructure is critical for the development of the economy and hence, the construction sector assumes an important role. Post the COVID-19 pandemic which has adversely impacted the financial and liquidity profile of players in the industry, the government of India has undertaken several steps for boosting infrastructure development and reviving the investment cycle. The government has increased the infrastructure budget to Rs.10 lakh crore, a 33% increase from the last year's infra budget. The same is expected to result in increased order inflow and movement of passive orders in the existing order book. The focus of the government on infrastructure development is expected to translate into the huge business potential for the construction industry in the long run.

Liquidity: Stretched

The liquidity position of the company during the last review period was stretched characterized by GCA of Rs.3.45 crore against low repayment obligations of Rs.1.08 crore for FY23. The company had reported a positive CFO at Rs.5.97 crore as on March 31, 2022. However, the current ratio of the company was above unity at 1.79x as on March 31, 2022 (PY: 1.71x). Also, the company's working capital utilisation stood at 32% for the last twelve months ending December 2022.

Assumptions/Covenants: Not Applicable

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

Applicable criteria

[Definition of Default](#)

[Policy in respect of non-cooperation by issuers](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

[Financial Ratios – Non financial Sector](#)

[Construction](#)

[Infrastructure Sector Ratings](#)

[Short Term Instruments](#)

About the company and industry

Industry classification

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

Velko was founded in 1975 as a sole proprietorship under the name of Velagapudi Ramarao, subsequently, the name was changed to Velko Infratek Projects Private Limited (VIPPL) in January 2014. The company focuses on providing water and sanitation solution. Further, it provides EPC activities for infrastructure projects on a turnkey basis. The company specialize in executing water supply & sewerage infrastructure projects with backward integration including all connected civil engineering works, executing pipeline contracts, construction of water treatment plants (WTP) sewage treatment plants (STP), reservoirs (ELSR, GLSR), pump houses, and installation of electro-mechanical equipment. The company has executed several projects for various government departments and municipalities in the past like Vijayawada Municipal Corporation, Public Health Department, A.P Transco, NABARD (National Bank of Agriculture & Rural Development), APSIDC (Andhra Pradesh State Irrigation Development Corporation Limited), APRWSSP (Andhra Pradesh Rural Water Supply & Sanitation Project) etc.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	March 31, 2023 (A)
Total operating income	54.22	63.61	66.76
PBILDT	6.02	7.92	6.53
PAT	2.66	3.05	2.06
Overall gearing (times)	0.61	0.55	0.62
Interest coverage (times)	2.72	2.22	1.97

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

Status of non-cooperation with previous CRA: ICRA has moved the ratings assigned to the bank facilities of Velko Infratek Projects Private Limited to the 'issuer non-cooperation category vide a press release dated October 12, 2023 on account of its inability to review in the absence of the best available information from the company.

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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Bank Overdraft		-	-	-	6.50	CARE BB-; Stable; ISSUER NOT COOPERATING*
Fund-based - LT-Cash Credit		-	-	-	4.00	CARE BB-; Stable; ISSUER NOT COOPERATING*
Fund-based - LT-Term Loan		-	-	August 07 2027	4.08	CARE BB-; Stable; ISSUER NOT COOPERATING*
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	44.00	CARE BB-; Stable / CARE A4; ISSUER NOT COOPERATING*

*Issuer did not cooperate; based on best available information.

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	6.50	CARE BB-; Stable; ISSUER NOT COOPERATING *	1)CARE BB-; Stable (03-Apr-23)	1)CARE BB-; Stable (16-Mar-23)	1)CARE BB-; Stable (29-Mar-22) 2)CARE BB; Stable (01-Apr-21)	-
2	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST *	44.00	CARE BB-; Stable / CARE A4; ISSUER NOT COOPERATING *	1)CARE BB-; Stable / CARE A4 (03-Apr-23)	1)CARE BB-; Stable / CARE A4 (16-Mar-23)	1)CARE BB-; Stable / CARE A4 (29-Mar-22) 2)CARE BB; Stable / CARE A4	-

							(01-Apr-21)	
3	Fund-based - LT-Term Loan	LT	4.08	CARE BB-; Stable; ISSUER NOT COOPERATING *	1)CARE BB-; Stable (03-Apr-23)	1)CARE BB-; Stable (16-Mar-23)	1)CARE BB-; Stable (29-Mar-22) 2)CARE BB; Stable (01-Apr-21)	-
4	Fund-based - LT-Cash Credit	LT	4.00	CARE BB-; Stable; ISSUER NOT COOPERATING *	1)CARE BB-; Stable (03-Apr-23)	1)CARE BB-; Stable (16-Mar-23)	1)CARE BB-; Stable (29-Mar-22) 2)CARE BB; Stable (01-Apr-21)	-

*Issuer did not cooperate; based on best available information.

*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	Fund-based - LT-Term Loan	Simple
4	Non-fund-based - LT/ ST-Bank Guarantee	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

Annexure-6: List of all the entities consolidated: Not Applicable

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.

Contact us

Media Contact Mradul Mishra Director CARE Ratings Limited Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in Relationship Contact Saikat Roy Senior Director CARE Ratings Limited Phone: 91 22 6754 3404 E-mail: saiikat.roy@careedge.in	Analytical Contacts Karthik Raj K Director CARE Ratings Limited Phone: +91-080- 46625555 E-mail: karthik.raj@careedge.in Y Tejeshwar Reddy Assistant Director CARE Ratings Limited Phone: 914040102030 E-mail: Tejeshwar.Reddy@careedge.in Ankit Jha Rating Analyst CARE Ratings Limited E-mail: Ankit.Jha@careedge.in
--	---

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.

Disclaimer:

The ratings issued by CARE Ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse, or recall the concerned bank facilities or to buy, sell, or hold any security. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings has based its ratings/outlook based on information obtained from reliable and credible sources. CARE Ratings does not, however, guarantee the accuracy, adequacy, or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating/outlook assigned by CARE Ratings is, inter-alia, based on the capital deployed by the partners/proprietors and the current financial strength of the firm. The ratings/outlook may change in case of withdrawal of capital, or the unsecured loans brought in by the partners/proprietors in addition to the financial performance and other relevant factors. CARE Ratings is not responsible for any errors and states that it has no financial liability whatsoever to the users of the ratings of CARE Ratings. The ratings of CARE Ratings do not factor in any rating-related trigger clauses as per the terms of the facilities/instruments, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and triggered, the ratings may see volatility and sharp downgrades.

**For the detailed Rationale Report and subscription information,
please visit www.careedge.in**