Vishnu Prakash R Punglia Limited

October 08, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	200.00	CARE BBB+; Stable	Reaffirmed; Outlook revised from Positive
Long Term / Short-term bank facilities	760.00	CARE BBB+; Stable / CARE A3+	Reaffirmed; Outlook revised from Positive

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to bank facilities of Vishnu Prakash R Punglia Limited (VPRPL) continue to derive strength from extensive experience of its promoters and a proven track record in execution of water supply projects and low counterparty risk.
Ratings also factor significant growth in VPRPL's scale of operations and improvement in its profitability in FY24 (FY refers to April 01 to March 31). Growth is expected to be sustained in the medium term, supported by strong and geographically diversified orderbook, and the central/ state government's focus on water resource development projects. Ratings also factor strengthening of VPRPL's financial risk profile following raising of growth capital through its Initial Public Offering (IPO).
However, rating strengths are partially offset by sizable increase in working capital intensity of VPRPL's operations primarily due to elongation of collection period and inventory holding resulting from delays in work certification and payment releases. It is further offset by 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 in 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 total operating income (TOI) through timely execution of the current orders in hand while maintaining its profitability at the existing level on a sustained basis.
- Substantial improvement in geographical and segmental diversification with lower counterparty risk

Negative factors

- Decline in PBILDT margin below 10% on a sustained basis or any major moderation in its TOI due to delay in project execution
- Continued high working capital intensity thereby adversely affecting TOL/TNW above 1.75 times

Analytical approach: Standalone

Outlook: Stable

Revision in the outlook from 'Positive' to 'Stable' is primarily driven by increase in VPRPL's working capital intensity, leading to greater dependence on working capital borrowings, despite infusion of growth capital from IPO proceeds. Revision also factors lower-than-expected growth in TOI in FY24.

Detailed description of key rating drivers:

Key strengths

Growing scale of operations with improved profitability

In FY24, VPRPL's TOI grew by 26% to ₹1473.87 crore (PY: ₹1168.40 crore), which was lower-than-envisaged TOI of ₹1750 crore owing to delay in work certification and slow project execution.

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

However, execution of projects having better margins and growth in TOI led to improvement in VPRPL's PBILDT margin, which improved to 14.26% in FY24, as compared to 9.35%-13.40% from FY21-FY23.
In Q1FY25 (Provisional), VPRPL reported TOI of ₹257 crore, compared to ₹278 crore in Q1FY24. PBILDT margin stood at 13.09% in Q1FY25.
CARE Ratings Limited (CARE Ratings) expects VPRPL to achieve TOI of over ₹1700 crore, while maintaining it PBILDT margin in the range of 13-14% in FY25 backed by strong orderbook and scaling up of execution pace in the second half.

Improvement in financial risk profile through raising of growth capital through its IPO
VPRPL raised equity totalling ₹373.11 crore (comprising₹308.61 crore through the issuance of 3.12 crore equity shares at ₹99 each through an IPO in September 2023, and ₹64.50 crore in December 2022 through a pre-IPO placement). Of this, ₹217 crore has been earmarked for working capital requirements and general corporate purposes. As on June 30, 2024, entire IPO proceeds earmarked for working capital and general corporate purposes have been utilised.
With healthy accrual of profit to reserves, VPRPL's capital structure improved significantly marked by overall gearing of 0.59x as on March 31, 2024 (0.79x at FY23 end, 1.04x at FY22 end). TOL/ TNW also improved to 1.08x as on March 31, 2024 (FY23: 1.47x). VPRPL's debt coverage indicators stood moderate with PBILDT interest coverage and total debt to gross cash accruals (TD/GCA) at 4.86x (PY: 5.18x) and 3.27 years (PY: 2.67 years) respectively in FY24.
VPRPL's capital structure is expected to remain comfortable with an overall gearing projected to stay below current levels in the medium term.

Healthy orderbook with low counterparty risk and emphasis on geographical and segmental diversification
VPRPL had an outstanding order book of ₹4915 crore as on June 30, 2024, translating into healthy revenue visibility of 3.33x of FY24 TOI. Since the last review, VPRPL has been awarded new orders worth ~₹1700 crore (including orders of ~₹943 crore awarded in H1FY25).
Geographical concentration of its orderbook in Rajasthan has reduced to ~37% as on June 30, 2024 (53% as on September 16, 2023), followed by Uttarakhand (20%), Uttar Pradesh (12%), Madhya Pradesh (12%), Manipur (7%) and balance 12% orders from other states. With a high volume of work in water infrastructure, water supply projects (WSPs) continue to dominate VPRPL's orderbook, constituting ~78% of total orderbook. However, VPRPL is focusing on diversification into the railway and road segment, which constitute ~16% and 3% of its orderbook respectively. Of the ~₹943 crore of orders awarded in H1FY25, ~₹510 crore are in the railway sector, while the remainder related to WSPs.
Counterparty credit risk remains low as all orders are from government entities, including urban local bodies, state governments, and the Central Government. Additionally, ~15% of the unexecuted orders pertains to water supply projects under the Jal Jeevan Mission, where funding from state and central government remains in equal proportion.

Extensive experience with long-standing association of the promoters with government clients
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

Substantial increase in working capital intensity
The construction segment is inherently working capital intensive primarily due to funding requirement towards security deposits, and retention amount, apart from funding margin money for non fund-based facilities. Apart from funding requirement associated with incremental sales, VPRPL's working capital requirement increased in FY24 and Q1FY25. The rise was primarily due to elongation of collection period and inventory holding, resulting from delays in work certification and payment releases. gross current assets days and working capital cycle elongated to 319 days (PY: 204 days) and 168 days (PY: 104 days) as on March 31, 2024.
Increased working capital intensity lead to greater dependence on working capital borrowings, despite infusion of growth capital from IPO proceeds. While traction has been witnessed in payment releases since June 2024, working capital intensity continued to remain high in August 2024 as well. According to VPRPL's submission, the billing cycle is expected to be streamlined in the next 3-4 months, and no enhancement in working capital limit is anticipated in H2FY25. Improvement in working capital intensity with streamlining of operations remains crucial from the credit perspective.

Execution risk associated with projects at nascent stage of execution
VPRPL remains exposed to project execution risk, as ~34% of its orderbook pertains to recently awarded projects, which are currently at a nascent stage of execution. Execution of ~40% of orders in VPRPL's orderbook is delayed. Slower execution in

these projects can be attributed to factors including land unavailability, delay in finalisation of designs and drawings, and slow payment releases from government authorities.
However, VPRPL managed to scale up execution after receipt of necessary approvals for existing and new orders. Moreover, Rajasthan remains significant for VPRPL, where it has an established base, mitigating execution risk to an extent. Since WSPs often have a long gestation period that necessitates clear right of way (RoW) and permissions from the principal, extension is usually granted without levy of penalties on the company, as delays are largely attributable to counterparties. Timely execution of the orderbook including nascent stage projects and slow moving projects within envisaged timelines shall remain crucial from credit perspective.

Presence in an intensely competitive and fragmented construction industry
VPRPL is a mid-sized player in an intensely competitive and fragmented construction industry, where projects are awarded based on bidder's relevant experience, financial capability and most competitive bid price. Moreover, low counterparty credit risk and relatively stable payment track record of projects funded by central and state government bodies, makes these projects lucrative for the contractors. As a result, competition is intense, which places pressure on profit margins.

Profitability susceptible to fluctuations in input prices
The execution period for contracts awarded to VPRPL usually ranges from 12-30 months. Thus, profitability remains susceptible to input price fluctuations. However, a significant portion of VPRPL's orderbook includes in-built price escalation clause for major inputs, which helps mitigates the risk associated with adverse changes in input prices to a large extent.

Liquidity: Adequate
The company's liquidity position continues to remain adequate with sufficient cushion in its GCA against debt repayment obligations and free cash and bank balance of ₹37.86 crore as on June 30, 2024.
Average utilisation of fund-based and non-fund-based limits remained high at 90% and 85% respectively in 12 months-ended August 2024 owing to slowdown in work certifications and payment releases.

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

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Financial Ratios – Non financial Sector
Construction
Short Term Instruments

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Industrials	Construction	Construction	Civil construction

VPRPL (CIN: U45203MH2013PLC243252) was initially formed in 1984 as a partnership concern by Vishnu Prakash Punglia and his family. 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 WSP on EPC basis and 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 government entities, including urban local bodies.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25 (UA)
Total operating income	1168.40	1473.87	256.56
PBILDT	156.62	210.21	33.59
PAT	90.64	122.19	14.76
Overall gearing (times)	0.79	0.59	NA
Interest coverage (times)	5.18	4.86	NA

A: Audited UA: Unaudited; NA: Not Available Note: these are latest available financial results

Status of non-cooperation with previous CRA: CRISIL vide its press release dated November 20, 2023, has continued to classify ratings of VPRPL under "Issuer Not Co-operating" category due to non-availability of requisite information to conduct the rating exercise and simultaneously withdrawn the ratings.

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of 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 and Rating Outlook
Fund-based - LT-Bank Overdraft		-	-	-	200.00	CARE BBB+; Stable
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	760.00	CARE BBB+; Stable / CARE A3+

Annexure-2: Rating history for 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 2024-2025	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
1	Fund-based - LT-Bank Overdraft	LT	200.00	CARE BBB+; Stable	-	1)CARE BBB+; Positive (27-Oct-23) 2)CARE BBB+; Stable (03-May-23)	1)CARE BBB+; Stable (04-Aug-22)	1)CARE BBB; Stable (08-Nov-21)
2	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST	760.00	CARE BBB+; Stable / CARE A3+	-	1)CARE BBB+; Positive / CARE A3+ (27-Oct-23) 2)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)

LT: Long term; LT/ST: Long term/Short term

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

Annexure-4: Complexity level of 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 lender-wise details of bank facilities please click here

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

Contact us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in **Relationship Contact** Pradeep Kumar V Senior Director **CARE Ratings Limited** Phone: 914428501001 E-mail: pradeep.kumar@careedge.in	Kalpesh Ramanbhai Patel Director **CARE Ratings Limited** Phone: 079-40265611 E-mail: kalpesh.patel@careedge.in Nikita Goyal Associate Director **CARE Ratings Limited** Phone: 079-40265670 E-mail: nikita.goyal@careedge.in Arpita Alax Christian Lead Analyst **CARE Ratings Limited** E-mail: Arpita.Christian@careedge.in

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