

## Vasishta Constructions Private Limited

March 02, 2020

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long term Bank Facilities	49.65 (enhanced from 33.20)	<b>CARE BBB+; Stable (Triple B Plus; Outlook: Stable)</b>	Reaffirmed
Long-term/Short-term Bank Facilities	205.00 (enhanced from 198.00)	<b>CARE BBB+; Stable/CARE A3+ (Triple B Plus; Outlook: Stable/A Three Plus)</b>	Reaffirmed
<b>Total</b>	<b>254.65 (Rs. Two hundred and Fifty Four crore and Sixty Five lakh only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The reaffirmation of ratings assigned to the bank facilities of Vasishta Constructions Private Limited (VCPL) take into account strength derived from the experienced promoters, adequate liquidity position, comfortable capital structure, stable profitability margins and stable industry outlook. The ratings also factor in improved financial performance during FY19 (refers to the period April 1 to March 31) marked by growth in total operating income and healthy growth in order book with majority of projects funded by Central Government authorities. The ratings are, however, constrained by concentrated order book position with delay in execution of orders received from National Highways Infrastructure Development Corporation Limited (NHIDCL) at Andaman & Nicobar Islands and exposure to intense competition in civil construction sector due to fragmented nature of the industry.

#### Positive factors:

- Timely execution of the outstanding order book and collection of bill receivables within 30-60 days
- PBILDT% being more than 18% on sustained basis

#### Negative factors:

- Delay in envisaged execution of orders at Andaman and Nicobar islands by more than 20%.

### Detailed description of the key rating drivers

#### Key Rating Strengths

**Experienced promoters:** Vasishta Constructions Private Limited (VCPL), promoted by Mr. M Naga Raju, has been operating in the infrastructure segment for about three decades with major focus on construction of roads & bridges. The promoters have over 25 years of experience the construction segment which has enabled VCPL to secure orders across various infrastructure segments in regions such as Andaman & Nicobar Islands, Madhya Pradesh, Bihar, Assam, Jharkhand, Maharashtra, Telangana and Uttarakhand.

**Healthy growth in order book providing medium to long term visibility:** VCPL has a healthy order book position with orders in hand aggregating to Rs.1,690.96 crore as on December 31, 2019 (as against Rs.1,141.18 crore as on November 30, 2018). The confirmed order book position of the company translates to 3.72x of the gross billing for FY19 providing revenue visibility for medium to long term. Majority of projects are backed by funds governed by central government such as Central Government Fund, National Bank For Agriculture & Rural Development (NABARD) Fund and North-Eastern State Fund which reduces risk associated with realization of payments.

**Increased total operating income and stable profit margins during FY19:** Total operating income of the company has a healthy growth of around 27% from Rs.359.62 crore in FY18 to Rs.454.98 crore in FY19 primarily on account of strong execution of high value orders. Profit margins remain stable with PBILDT margin at 13.45% and PAT margin at 5.74%. Further, for the period 9MFY20, the company has reported total operating income of Rs.364.97 crore (Prov.).

**Comfortable capital structure and debt coverage indicators:** VCPL has comfortable capital structure with debt to equity and overall gearing below unity as on March 31, 2019. Despite increase in borrowings to fund the overall growth of the company, with accretion of profits to networth, overall gearing of the company remained comfortable at 0.65x as on March 31, 2019 (as compared to 0.52x as on March 31, 2018). The other debt coverage indicators continue to remain comfortable in FY19.

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

**Moderate operating cycle:** Operating cycle of VCPL improved from 133 days in FY18 to 119 days in FY19 on account of improved collection days from 110 days in FY18 to 94 days in FY19 with early realization debtors for the projects executed. Average utilization of bank borrowings during last trailing 12 months ending December 2019 has remained moderate at 66%.

**Stable industry outlook:** Construction & Infrastructure sector is a key driver for the Indian economy. The sector is highly responsible for propelling India's overall development and enjoys intense focus from Government for initiating policies that would ensure time-bound creation of world class infrastructure in the country.

#### Key Rating Weaknesses

**Concentrated order book:** The work orders of the company are spread across three states and one union territory. Order book is mainly concentrated in Andaman & Nicobar Islands (50%) followed by Madhya Pradesh (46%) with work order from National Highways Infrastructure Development Corporation Limited and Water resource department respectively for the work execution in said States. Further, due to continuous cyclone for 3 months (August 2019 to October 2019), the execution was slowed at the Andaman and Nicobar Islands, resulting in lower works than the estimates.

**Exposure to intense competition in civil construction sector:** There are numerous fragmented & unorganized players operating in the segment which makes the civil construction space highly competitive. However, the promoters' long industry experience of more than two decades mitigates this risk to some extent.

#### Liquidity: Adequate

Liquidity position of the company is adequate marked by generation of GCA of Rs 35.70 crore vis-à-vis scheduled repayment obligations of Rs 9.13 crore. Further, the average utilization of the fund based working capital remains at 66% for the past 12 months ended December 2019 coupled with free cash balance of Rs 3.13 crore as on March 31, 2019.

**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](#)

#### 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. The promoters have around three decades of experience in executing civil contracts for government entities and private players in the aforesaid segments.

**Covenants of rated instrument / facility:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	359.34	454.98
PBILDT	49.79	61.19
PAT	20.64	23.50
Overall gearing (times)	0.48	0.65
Interest coverage (times)	3.92	4.23

A: 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

**Annexure-1: Details of Instruments/Facilities**

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	34.00	CARE BBB+; Stable
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	205.00	CARE BBB+; Stable / CARE A3+
Fund-based - LT-Term Loan	-	-	September 2029	15.65	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	34.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (03-Jan-19) 2)CARE BBB+; Stable (27-Dec-18)	1)CARE BBB; Stable (18-Dec-17)	1)CARE BBB- (04-Aug-16)
2.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	205.00	CARE BBB+; Stable / CARE A3+	-	1)CARE BBB+; Stable / CARE A3+ (03-Jan-19) 2)CARE BBB+; Stable / CARE A3+ (27-Dec-18)	1)CARE BBB; Stable / CARE A3+ (18-Dec-17)	1)CARE BBB- / CARE A3 (04-Aug-16)
3.	Fund-based - LT-Working Capital Demand loan	LT	-	-	-	-	-	1)Withdrawn (04-Aug-16)
4.	Fund-based - LT-Term Loan	LT	15.65	CARE BBB+; Stable	-	1)CARE BBB+; Stable (03-Jan-19) 2)CARE BBB+; Stable (27-Dec-18)	1)CARE BBB; Stable (18-Dec-17)	1)CARE BBB- (04-Aug-16)

**Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not applicable**

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

## Contact us

### Media Contact

Mradul Mishra

Contact no. – +91-22-6837 4424

Email ID – mradul.mishra@careratings.com

### Analyst Contact

Group Head Name – Mr. Prasanna Krishnan

Group Head Contact no. - 040-67937421

Group Head Email ID- prasanna.krishnana@careratings.com

### Relationship Contact

Name: Mr. Ramesh Bob

Contact no. : +91 9052000521

### About CARE Ratings:

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