Vishnu Prakash R Punglia Limited

December 17, 2019

Ratings

Facilities	**Amount (Rs. crore)**	**Ratings**[1]	**Rating Action**
Long term/Short term Bank Facilities	205.00	**CARE BBB-; Stable/CARE A3 (Triple B Minus; Outlook: Stable/A Three)**	**Assigned**
Long-term Bank Facilities	80.00	**CARE BBB-; Stable (Triple B Minus; Outlook: Stable)**	**Assigned**
Total Facilities	**285.00 (Rupees Two Hundred Eighty Five Crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Vishnu Prakash R Punglia Limited (VPRPL) draw strength from extensive experience of its promoters and management in the civil construction industry, established track record of operations of more than three decades along with long standing association with clients. The ratings, further, derive comfort from expected growth in its scale of operation during FY20 (refers to the period April 1 to March 31) on the back of healthy order book resulting in strong revenue visibility along with its moderate profitability margins with presence of price variation clause in majority of its contracts.

The ratings are, however, constrained on account of its moderate capital structure and debt coverage indicators along with high segment concentration of its order book as the same is skewed towards water supply projects which has encountered execution challenges. The ratings are further constrained on account of its presence in a fragmented construction sector with tender based nature of operations.

Rating Sensitivities

Positive Factors

- Sizeable increase in scale of operations along with greater revenue diversification on a sustainable basis
- Execution of orders within stipulated time frame and timely receipt of contract proceeds
- Improvement in overall gearing below 0.70x
- Improvement in debt coverage indicators with PBILDT Interest coverage above 4.50x and Total Debt/GCA below 3x on sustained basis

Negative Factors

- Decline in scale of operations by more than 20% from envisaged levels due to slower execution of orders as well as any imposition of penalties due to such delay
- PBILDT margin falling below 8% on sustained basis
- Deterioration in its overall gearing beyond 1.50 times
- Delay in receipt of collection from customers on a sustained basis along with significant increase in working capital requirement thereby adversely affecting debt coverage as well as liquidity indicators of the company

Detailed description of the key rating drivers

Key Rating Strengths

Extensive experience of promoters in the construction industry and long standing association with government clients:

Mr. Vishnu Prakash Punglia, one of the key promoters, has extensive experience of around four decades in the construction industry and is instrumental in making strategic decisions for the company. He is ably supported by second line of management which includes his family member Mr. Manohar Lal Punglia (Director) having experience of more than two decades who looks after the overall operations of the company, Mr. Ajay Punglia (Director) who looks after the finance function of the company and Mr. Sanjay Punglia (Director) a Bachelor of Engineering by qualification who looks after the project execution division of the company. Further, Mr. Vishnu Prakash Punglia is ably supported by other directors as well as by a team of managerial and technical personnel having relevant experience in their respective fields.

Being present in the industry since 1984, it has an established track record of operations in the civil construction industry and has long-standing relationship with various other government authorities like the Public Health Engineering Department (PHED), Rajasthan, Gujarat Water Supply & Sewage Board (GWSSB), Rajasthan Urban Infrastructure Development Project

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

(RUIDP), various divisions of Indian Railways, Military Engineer Services (MES) and urban local bodies from whom it gets majority of its contract work.

Healthy order book which provides strong revenue visibility; albeit high segment concentration:
As on November 01, 2019, the company had healthy order book of Rs. 1272.93 crore (including O&M work), forming around 3.47 times of gross receipts of VPRPL for FY19 thereby indicating strong medium term revenue visibility. The said order book (excluding O&M work) consists of 35 projects involving water supply projects, civil infrastructure for railways as well as other civil construction work which are likely to be completely executed over a period of next 3-24 months. However, securing all regulatory approvals and completion of work in a timely manner will be crucial.
VPRPL's dependence on single party was moderately lower with its customer base being a mix of government entities, including urban local bodies which also translate into low counter-party credit risk for the company. Further, the company has also mitigated the geographical concentration risk by diversifying its presence to other states from previously being largely a Rajasthan-based player. In addition, a significant portion of the present order book of VPRPL is supported by in-built price escalation clause, which mitigates the risk arising out of adverse movement in raw material prices and labour charges to a large extent. However, the company still derives majority of its revenue from water supply projects thereby reflecting high segment concentration which is also likely to continue in the medium-term. Out of total order book (including O&M work) of the company as on November 01, 2019, 77% (Rs.985 crore) of its outstanding order still pertained to this segment.

Scale of operations is expected to increase going forward after relatively muted revenue growth in FY19:
The scale of operations of VPRPL as indicated by total operating income (TOI) grew at a moderate Compounded Annual Growth Rate (CAGR) of around 10% during the last three financial years (FY17-FY19). During FY19, TOI of the company stood at Rs.337.26 crore as against Rs.335.58 crore in FY18, reflecting muted y-o-y revenue growth on account of moderate execution of orders on hand mainly due to delay in timely receipt of clearance pertaining to majority of its orders from the concerned authorities (including issues pertaining to land acquisition, regulatory clearances and other external factors) along with higher than normal inventory level as on Balance Sheet date due to non-raising of invoice for part work done. However, VPRPL has reported higher gross receipt of Rs.243.15 crore in 7MFY20 thereby indicating expected growth in its scale of operations going forward on the back of its healthy order book.

Moderate profitability margins:
Profitability margins of the company have exhibited gradual increasing trend during the last three financial years (FY17-19) which can be attributed to difference in the nature of the contracts secured by the company and margin earned on the same. During FY19, PBILDT margin of the company increased by around 116 bps to 11.27% mainly on account of lower cost of material/sub-contract expenses. In line with PBILDT margin, PAT margin of the company also increased by 26 bps to 3.63% with GCA level of the company increasing by around 7% to Rs.16.09 crore in FY19 as against Rs.15.02 crore in FY18. Further, during 7MFY20, VPRPL reported PBILDT and PAT level of Rs.23.00 crore and Rs.9.27 crore respectively translating to PBILDT margin of 10.63% and PAT margin of 4.28% (assuming income tax @29.12%).

Liquidity: Adequate
The company's operations are working capital intensive in nature primarily due to funding requirement towards the security deposits, retention amount and margin money for the non-fund-based facilities resulting in almost full utilization of its fund-based working capital borrowings in the trailing 12 month period ended October, 2019; albeit the utilisation of its non fund-based limits remained around 70%. VPRPL generates invoices on monthly basis for the work done during the month with inventory (work-in-progress) remaining on the books until the invoice is generated post inspection of work by authorities resulting in high inventory period. As on March 31, 2019 the inventory level stood significantly higher due to non-raising of invoice for the part work done resulting in elongated working capital cycle of 104 days in FY19 (80 days in FY18). Further, in order to support its working capital requirement, the company had availed ad-hoc limit as well as various short term working capital term loans with high debt repayments in short-term. However, during 7MFY20 due to realisation of funds from the concerned departments, VPRPL's debtor level (including retention money) declined to Rs.42.51 crore as on October 31, 2019 as against Rs.66.62 crore as on March 31, 2019, though inventory level continued to remain high at Rs.75.86 crore as on October 31, 2019 as against Rs.79.79 crore as on March 31, 2019. Further, the company expects annual cash accruals of Rs.19-20 crore during FY21 and FY22 against which it has annual debt repayment of Rs.4-8 crore during these years apart from repayment obligation of around Rs.6 crore during November 2019 to March 2020. Further, the company had free cash and bank balance of Rs.3.05 crore as on October 31, 2019 which provides liquidity cushion for debt servicing in the remaining period of FY20. However, the company would require additional funds going forward for facilitating growth in its scale of operations. Additionally, due to increase in working capital gap its cash flow from operating activities decreased to Rs.0.59 crore in FY19 from Rs.9.67 crore in FY18.

Key Rating Weaknesses

Moderate capital structure and debt coverage indicators:

The capital structure of VPRPL stood moderate with an overall gearing of 1.50 times as on March 31, 2019, though it improved to 1.17 times as on October 31, 2019, owing to increase in net worth base backed by healthy accretion of profit to reserve and lower debt levels. The total debt of the company as on March 31, 2019, consisted of term loan (vehicle/equipment and working capital loan) amounting to Rs.26.42 crore, unsecured loans from related parties of Rs.17.64 crore and Rs.79.90 crore of its working capital limit at the year end.

The debt coverage indicators of the company also stood moderate with total debt to GCA of 7.70 times as on March 31, 2019; albeit it improved to 5.66 times during 7MFY20 (on annualized basis). Further, its PBILDT interest coverage also stood at moderate levels of 2.16 times and 2.85 times during FY19 and 7MFY20 respectively.

Fragmented nature of construction sector with tender based nature of operations:

The construction sector in India is highly fragmented with a large number of small and mid-sized players. This coupled with tendering process in order procurement results into intense competition within the industry, fluctuating revenues and restrictions in profitability. Additionally, continued increase in execution challenges including delays in land acquisition, regulatory clearances, aggressive bidding, interest rate risk and delays in project due to environmental clearance are other external factors that affect the credit profile of industry players.

Outlook on Industry

The Government of India has been undertaking several steps for boosting the infrastructure development and reviving the investment cycle in the segment, which was facing a slowdown since past couple of years. A few measures include relaxation of Foreign Direct Investment (FDI) norms for the sector, infrastructure status accorded to affordable housing and fund allocation for projects like development of 100 smart cities, Housing for All by 2022 and Atal Mission for Urban Rejuvenation and Transformation (AMRUT). In the budget (2019-20), total outlay of Rs.4.56 lakh crore (compared with Rs.5.97 lakh crore in 2018-2019) has been planned for infrastructure sector with emphasis over the transportation sector i.e. roads, highways and railways. The same is expected to drive growth opportunities subject to availability of adequate working capital.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology-Construction
Criteria for Short Term Instruments
Financial ratios – Non-Financial Sector

About the Company

VPRPL 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. VPRPL is primarily engaged in execution of civil construction works involving construction of bridges, Road over Bridge (ROB), roads with major focus on water supply projects that involve erection, procurement, commissioning (EPC) activities pertaining to pipelines, water tanks, reservoirs, pump house, filter plants, intake wells, electrical & instrumentation works as well as providing operation and maintenance (O&M) services. The company is registered as 'AA' class contractor in Public Health Engineering Department (PHED), Rajasthan and has long association with various government entities, including urban local bodies.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	335.58	337.26
PBILDT	33.95	38.02
PAT	11.30	12.23
Overall gearing (times)	1.57	1.50
Interest coverage (times)	2.42	2.16

A: Audited

As per provisional results for 7MFY20, VPRPL has earned a PBT of Rs.13.08 crore on a TOI of Rs.216.41 crore

Status of non-cooperation with previous CRA: CRISIL has moved its ratings on VPRPL to "CRISIL BB+; Stable/CRISIL A4+, Issuer Not Co-operating" category on May 29, 2019 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

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-Bank Overdraft	-	-	-	80.00	CARE BBB-; Stable
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	205.00	CARE BBB-; Stable / CARE A3

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-Bank Overdraft	LT	80.00	CARE BBB-; Stable	-	-	-	-
2.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	205.00	CARE BBB-; Stable / CARE A3	-	-	-	-

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. Investors/market intermediaries/regulators or others are welcome to write to 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
Name: Harsh Raj Sankhla
Contact no.: +91-141-4020213/14
Email ID: harshraj.sankhla@careratings.com

Relationship Contact
Name: Nikhil Soni
Contact no.: +91-141-4020213/14
Email ID: nikhil.soni@careratings.com

About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**