

May 13, 2022

VRC Constructions (India) Private Limited: Long-term rating upgraded to [ICRA]A(Stable) from [ICRA]A-(Stable), short-term rating reaffirmed at [ICRA]A2+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Cash Credit	42.00	39.00	[ICRA]A (Stable); upgraded from [ICRA]A- (Stable)
Short-term Non-fund Based - Bank Guarantee	505.00	508.00	[ICRA]A2+; reaffirmed
Total	547.00	547.00	

*Instrument details are provided in Annexure-1

Rationale

The ratings of VRC Constructions (India) Private Limited (VRC) favourably factors in the robust year-on year (YoY) growth in its operating income (OI) by ~40% to ~Rs. 908 crore and improvement in operating profitability (+170bps to 18.3%) in FY2022. The ratings are supported by VRC's comfortable order book position of Rs. 4,060 crore as on March 31, 2022, which is ~4.4 times the OI of FY2022 providing medium-term revenue visibility. The OI is expected to increase to ~Rs. 1,400-1,450 crore in FY2023 (ICRA projections). Economies of scale benefits and reduction in sub-contracting expenses resulted in an improved operating profitability, which is likely to sustain going forward. VRC operates primarily in the road and refinery segments (including civil works), whereby roads contribute to approximately 55% and refinery accounts for 40% of the order book. The ratings continue to draw comfort from the company's healthy financial risk profile with a conservative capital structure and comfortable debt coverage indicators as reflected in interest coverage of 13.9 times in FY2022 and total outside liabilities to tangible net worth (TOL/TNW) of 1.0 times as on March 31, 2022 (provisional estimates). This apart, the ratings derive strength from the reputed clientele comprising public sector entities with low counterparty credit risk and the extensive experience of the promoters in the construction sector.

The ratings are, however, constrained by the concentration risks associated with VRC's order book with top five projects accounting for ~68% of the same, and execution risks given that ~95% of orders are in the nascent stages of execution (less than 20% progress). However, ICRA draws comfort from VRC's track record in the construction business and successful completion of projects before time and within budget. ICRA has factored in the company's exposure to three hybrid annuity model (HAM) projects from the National Highways Authority of India {NHAI, rated[ICRA]AAA(Stable)}, which are to be undertaken in separate special purpose vehicles (SPVs) and will be exposed to project implementation risk. VRC has extended the corporate guarantee (CG) for one of the SPVs and does not intend to extend CG for the other two HAM project SPVs. VRC will require to make sizeable investment amounting to Rs. 362 crore in these three SPVs. Of this, it has invested ~Rs. 93 crore in FY2022 for the first HAM SPV and the balance equity infusion can be met from its available liquidity and cash flow from operations over FY2023-FY2024. The ratings also consider the company's exposure to sizeable contingent liabilities in the form of bank guarantees, mainly for contractual performance, mobilisation advance and security deposits. Nonetheless, ICRA draws comfort from VRC's execution track record and absence of invocation of guarantees in the past.

The ratings factor in the company's investments in non-core businesses in the past viz. malls and hotel in Punjab, liquor shop (the operations have now been discontinued), real estate properties, etc, which increases uncertainty on capital allocation. However, the size of these investments is not large in relation to its net worth. ICRA is given to understand that there will not be any significant incremental investments in the non-core business going forward. ICRA notes that VRC's subsidiary, VRC Silos Private Limited, which has developed and is operating the silos in Barnala (Punjab), has availed Rs. 45-crore term loan in FY2022, and the cash flows are expected to be self-sufficient to service this debt.

The Stable outlook on the long-term rating reflects ICRA's opinion that VRC will continue to benefit from its favourable operational track record, its reputed clientele and its healthy order book position.

Key rating drivers and their description

Credit strengths

Healthy order book position providing medium-term revenue visibility – VRC has a sizeable pending order book of Rs. 4,060 crore as on March 31, 2022, which is ~4.4 times of the OI in FY2022 (provisional) providing healthy medium-term revenue visibility. The OI is expected to increase to ~Rs. 1,400-1,450 crore in FY2023 (ICRA projections). It witnessed a CAGR of ~15.2% in its OI and ~41.6% in its net cash accruals during FY2018 to FY2022. The current order book comprises orders from reputed public sector entities with a low counterparty credit risk viz. NHAI, HPCL Rajasthan Refinery Ltd, Indian Oil Corporation Ltd. (IOCL), etc.

Comfortable leverage and healthy coverage metrics – VRC witnessed a robust growth of ~40% in its OI in FY2022 (OI of ~Rs. 908 crore) despite the Covid-19 pandemic-induced challenges. Its operating profitability has also improved driven by economies of scale resulting in better absorption of fixed costs, increased share of revenues from higher margin projects, reduction in sub-contracting expenses. VRC has maintained limited dependence on external borrowings thus far, which has supported its financial risk profile with consolidated¹ gearing of 0.6 times and TOL/TNW of 1.0 times as on March 31, 2022 (provisional estimates). The debt coverage indicators have remained healthy with interest coverage of 13.9 times in FY2022. Despite committed investments towards the three HAM projects, VRC's credit profile is expected to remain comfortable, aided by its healthy accruals from operations.

Experience of promoters in construction industry – VRC's promoters and key management has a long experience in the construction business. Mr. Darshan Kumar Gupta (Managing Director) and Mr. Narinder Kumar Bansal (Director-Finance) have around five decades of experience in the construction sector. The second generation of promoters—Mr. Rajiv Kumar Gupta, Mr. Chander Shekhar Bansal and Mr. Ajay Kumar Bansal—have also been associated with the company and have more than a decade of experience in civil construction. This apart, it has a technical team of qualified and experienced professionals. Successful execution of the projects has helped it in getting large-sized orders from clients.

Credit challenges

Concentrated order book and execution risks – The company's order book remains exposed to project concentration risks as the top five projects accounted for ~68% of the order book as on March 31, 2022. VRC remains exposed to execution risks associated with the contracts as ~95% of orders are in the nascent stage with less than 20% progress, and of which the largest project comprising 62% of pending order book is yet to receive the appointed date.

Exposure towards business in subsidiaries including HAM projects – The company has recently taken up three HAM projects from the NHAI, which are to be undertaken in separate SPVs and will be exposed to project implementation risk. The company has extended CG for one of the SPVs and does not intend to extend CGs for the other two HAM SPVs. VRC will require to make sizeable investment amounting to Rs. 362 crore in these three SPVs. Of this, the company has invested ~Rs. 93 crore in FY2022 for the first HAM SPV and the balance equity infusion can be met from the available liquidity and cash flow from operations over FY2023-FY2024. However, ICRA draws comfort from VRC's track record in the construction business and successful completion of projects before time and within budget. Further, the promoters' contribution to be infused into these projects is to be made over the next two years, a major part of which can be met from the free cash and bank balances of Rs. 90 crore as on March 31, 2022, and deposits of Rs. 60 crore with Globe Capital Market Limited (a NBFC, rated [ICRA]A+ (Stable)) and cash flow from operations. ICRA has also noted that its subsidiary—VRC Silos—is self-sufficient to service its debt.

¹List of entities consolidated are provided in Annexure 2

Risks associated with construction sector including sizeable non-fund based exposure – VRC is exposed to the cyclicity inherent in the construction industry and intense competition in the tender-based contract award system, resulting in risk of volatility in order inflows, revenues and pressure on profit margins. However, its long presence and established relationship with the clients provides comfort. Most of the contracts have the provision for price variation of key raw materials such as cement and steel, which protects the profitability to an extent. It is exposed to sizeable contingent liabilities in the form of bank guarantees (~Rs. 307.3 crore as on March 31, 2022), mainly towards performance guarantee, mobilisation advance and security deposits. Nonetheless, ICRA draws comfort from VRC’s healthy execution track record and no invocation of guarantees in the past.

Liquidity position: Adequate

VRC’s liquidity is expected to remain adequate, evidenced by healthy liquidity position with unutilised fund-based limits of Rs. 18 crore (March 2022), free cash and bank balances of Rs. 90 crore as on March 31, 2022. Further, the cash flows from operations and available liquidity are likely to be adequate to meet the equity commitment towards the under-implementation HAM projects. Additionally, VRC enjoys flexibility through provision to avail mobilisation advances in its existing projects.

Rating sensitivities

Positive factors – The ratings could be upgraded if there is a significant increase in the company’s scale of operations while maintaining its profitability margins, liquidity position and comfortable credit metrics.

Negative factors – Negative pressure on the ratings could arise if there are significant delays in project execution, leading to decline in its scale, operating profitability, or deterioration in its liquidity position. The rating could come under pressure if the company undertakes higher-than-expected HAM projects in the near term or if there is time or cost overrun or delays in receipt of annuities in its HAM project. Furthermore, any significant investment/advances to Group companies/non-core business, or TOL/TNW increasing over 1.3 times, on a sustained basis, may trigger a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Construction Entities Rating Approach - Consolidation
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of VRC and its subsidiaries, associates. For the subsidiary - VRC DC Highways Private Limited – for which VRC has extended corporate guarantee, ICRA has done full consolidation. And limited consolidation for the remaining two SPVs, as no CGs have been issued/proposed

About the company

Incorporated in 1996, VRC is involved in civil construction business and has executed various projects in refinery and petrochemical, power, cement, steel, nuclear and other infrastructure sectors. In the recent past, it has diversified into road construction sector and has been increasing its exposure in the road sector since then. Its major clients include NHAI, HPCL Rajasthan Refinery Ltd, Indian Oil Corporation Ltd. (IOCL), etc. VRC has recently undertaken three HAM projects from NHAI which are to be developed under SPVs - VRC DC Highways Private Limited (VRDC), VRC SR Highways Private Limited (VRCSR), and VRC MB Highways Private Limited (VRCMB). VRC has also set-up and operating silos facility in Barnala (Punjab) as per the contract with Food Corporation of India (FCI), which is undertaken under its subsidiary - VRC Silos Private Limited.

The company is promoted by Mr. Darshan Kumar Gupta and Mr. Narinder Kumar Bansal, who has been working in the construction sector for around 50 years. The second generation of promoters—Mr. Rajiv Kumar Gupta, Mr. Chander Shekhar Bansal and Mr. Ajay Kumar Bansal—associated with the company have more than 15-20 years of experience in civil construction.

Key financial indicators (audited)

VRC Consolidated	FY2020	FY2021	FY2022 (provisional estimates)
Operating Income (Rs. crore)	411.7	645.6	908.8
PAT (Rs. crore)	22.9	73.6*	117.6
OPBDIT/OI (%)	11.0%	16.6%	18.3%
PAT/OI (%)	5.6%	10.9%	12.9%
Total Outside Liabilities/Tangible Net Worth (times)	1.4	0.8	1.0
Total Debt/OPBDIT (times)	1.6	0.4	1.3
Interest Coverage (times)	4.7	7.6	13.9

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

*including share of profit from AOP (JV); Source: VRC, ICRA

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Mar 31, 2022 (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	
					May 13, 2022	Sep 23, 2021	Mar 16, 2021		
1	Fund-based – Cash Credit	Long-term	39.00	28.00	[ICRA]A (Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	-	
2	Non-fund based - BG	Short term	508.00	307.30	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	-	

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based facilities – Cash Credit	Simple
Non-fund Based facilities – Bank Guarantee	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long term Fund-based - Cash Credit	NA	NA	NA	39.00*	[ICRA]A(Stable)
NA	Short term Non-fund based – Bank Guarantee	NA	NA	NA	508.00	[ICRA]A2+

Source: Company

*Rs. 7 crore CC interchangeable with BG

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure-2: List of entities considered for consolidated analysis

Company Name	VRC's Ownership	Consolidation Approach
VRC Constructions (India) Private Limited	100.00% (rated entity)	Full Consolidation
VRC Hotels Private limited	100.00%	Full Consolidation
VRC Silos Private Limited	100.00%	Full Consolidation
VRC DC Highways Private Limited	100.00%	Full Consolidation
Mata Brijeshwari Devi Infrastructure	74.00%	Limited Consolidation*
VRC SR Highways Private Limited	100.00%	Limited Consolidation^
VRC MB Highways Private Limited	100.00%	Limited Consolidation^

Source: VRC, ICRA

Note: ICRA has taken a consolidated view of the parent (VRC) and its subsidiaries while assigning the ratings.

*Limited consolidation as the cash inflows from this entity are not completely fungible with VRC due to the presence of other partners in the firm

^ Limited consolidation as no corporate guarantee has been issued for the term loans raised/ to be raised by the company

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