March 24, 2023(Revised)

VRC Constructions (India) Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Cash Credit	44.00	44.00	[ICRA]A(Stable); reaffirmed
Short-term – Non-fund based – Bank Guarantee	577.00	-	-
Long-term/Short-term – Non-fund based – Bank Guarantee	-	577.00	[ICRA]A(Stable)/[ICRA]A2+; reaffirmed
Total	**621.00**	**621.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings of VRC Constructions (India) Private Limited (VRC) favourably factor in the robust year-on year (YoY) growth in its operating income (OI) by ~40% to Rs. 908 crore, and improvement in operating profitability (+120 bps to 17.8%) in FY2022. In 9m-FY2023, VRC had generated Rs. 864.1 crore of OI and is estimated to report ~Rs. 1,250 crore in full FY2023, while keep its operating profitability at similar levels. The ratings are also supported by VRC's comfortable order book of around Rs. 3,945 crore as on December 31, 2022 (including the recent L1 in a HAM project), which is ~4.4 times the OI of FY2022 providing medium-term revenue visibility. 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), where roads contribute to approximately 55% and refinery related works accounts for 42% 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 reflected in the interest coverage of around 17 times in FY2022 and consolidated total outside liabilities to tangible net worth (consolidated TOL/TNW)[1] of 1.3 times (net TOL/TNW adjusting for unencumbered cash and bank balance at 0.8 times) as on March 31, 2022. This apart, the ratings derive strength from a 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 the top five projects accounting for ~70%, and execution risks given that ~77% of orders are in the early stages of execution (less than 20% progress). ICRA draws comfort from VRC's track record in the construction business and successful completion of projects within time and budget. ICRA has factored in the company's exposure to four hybrid annuity model (HAM) projects from the National Highways Authority of India {NHAI, rated [ICRA]AAA(Stable)}, which are being developed in separate special purpose vehicles (SPVs) and will be exposed to project implementation risks. VRC will be required to make sizeable investments amounting to ~Rs. 530 crore in these four SPVs. Of this, it has already invested ~Rs. 227 crore in the SPVs till Feb-2022, and the balance equity infusion is planed to be met from its available liquidity and cash flow from operations over FY2023-FY2025. The ratings also consider the company's exposure to sizeable contingent liabilities in the form of bank guarantees (BGs), mainly for contractual performance, mobilisation advances 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 the uncertainty on capital allocation.

[1] *Consolidated debt of VRC standalone, VRC DC Highways Private Limited, VRC Silos Private Limited and VRC Hotels Private Limited*

However, the size of these investments is not large in relation to its net worth, and ICRA is given to understand that there will not be any significant incremental investments in the non-core business, going forward. VRC's subsidiary, VRC Silos Private Limited (rated at [ICRA]A(Stable)), 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 healthy order book position.

ICRA has been receiving the No Default Statement (NDS) from VRC Constructions (India) Private Limited regularly in the previous months, which did not suggest any irregularity in debt servicing.

Key rating drivers and their description

Credit strengths

Healthy order book provides medium-term revenue visibility – VRC had a sizeable pending order book of Rs. 3,945 crore as on December 31, 2022 (including the recently procured HAM project from the NHAI), which is 4.4 times of the OI in FY2022 providing healthy medium-term revenue visibility. The OI is expected to increase to ~Rs. 1,250 crore in FY2023 (ICRA projections). It witnessed a CAGR of 19.4% in its OI and 54.1% 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. the 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 and reduction in sub-contracting expenses. It has limited dependence on external borrowings thus far, which supported its financial risk profile with a consolidated gearing of 0.7 times and consolidated TOL/TNW of 1.3 times as on March 31, 2022. In FY2022, the external debt increased to Rs. 242.1 crore as on March 31, 2022 (from Rs. 37.9 crore as on March 31, 2021) as the company availed overdraft (OD) facilities against fixed deposits (FD), and availed term debts in place of mobilisation advances. However, the net debt adjusted for the FDs provided for ODs, remains modest. The debt coverage indicators remained robust with interest coverage of 17 times in FY2022. Despite committed investments towards the four 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 have 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 projects has helped VRC secure 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 ~70% of the order book as on December 31, 2022. VRC remains exposed to execution risks associated with the contracts as ~77% of orders are in the early stages of execution with less than 20% progress.

Exposure towards business in subsidiaries including HAM projects – The company has taken up four HAM projects from the NHAI, which are being undertaken in separate SPVs and will be exposed to project implementation risks. VRC will be required to make sizeable equity investments amounting to ~Rs. 530 crore in these four SPVs. Of this, it had already invested ~Rs. 227 crore in these SPVs till February 2023, and the balance equity infusion can be met from the available liquidity and cash flow from operations over FY2023-FY2025. 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 and cash flow from operations. ICRA notes that its subsidiary—VRC Silos Pvt. Ltd. {rated [ICRA]A(stable)} — is self-sufficient to service its debt obligations.

Risks associated with construction sector including sizeable non-fund based exposure – VRC is exposed to the cyclicality inherent in the construction industry and intense competition in the tender-based contract award system, resulting in the risk of volatility in order inflows, revenues and pressure on profit margins. However, its long presence and established relationships with clients, provide 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 BGs (~Rs. 474.1 crore as on December 31, 2022), mainly towards performance guarantee, mobilisation advances 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, evident from its healthy liquidity position with unutilised fund-based limits of Rs. 41.06 crore (January 2023), free cash and bank balances of ~Rs. 20 crore as on January 31, 2023. 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.

Rating sensitivities

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

Negative factors – Pressure on the ratings could arise if there are any significant delays in project execution, leading to decline in its scale, operating profitability, or deterioration in its liquidity position. The ratings could come under pressure if VRC undertakes higher-than-expected HAM projects in the near term. Further, any significant investments/advances to Group companies/non-core business, or consolidated TOL/TNW[2] increasing over 1.3 times, on a sustained basis, could have an adverse impact on the credit profile and trigger a 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. ICRA has fully consolidated the HAM project SPV - VRC DC Highways Private Limited – for which VRC has extended corporate guarantee. For other HAM project SPVs, ICRA had considered limited consolidation.

About the company

Incorporated in 1996, VRC Construction (India) Private Limited (VRC) undertakes all type of civil construction works. It has executed various projects for refinery and petrochemical, power, cement, steel, nuclear, and other infrastructure sectors. Over half a decade ago, the company diversified into road construction and has been increasing its exposure in the road sector since then. Major clients include the National Highway Authority of India (NHAI), Indian Oil Corporation Ltd. (IOC), Hindustan

[2] *Consolidated debt of VRC standalone, VRC DC Highways Private Limited, VRC Silos Private Limited and VRC Hotels Private Limited*

Petroleum Corporation Ltd (HPCL), other Maharatna/Navratna Company/leading Industries like NTPC, EIL, EPI, BORL, HMEL, NBCC, BHEL, B&R, DMRC, state governments, some other multi-national corporations (MNCs) as well as domestic clients like Rajiv Gandhi Cancer institute Research Centre (New Delhi), DPPL Group. In the road segment, the company initially secured orders under the engineering, procurement and construction (EPC) mode. However, over the last two years, it has undertaken four developmental projects under HAM, where three are under execution and the fourth one has been recently awarded. VRC has also set up and is operating a silos facility in Barnala (Punjab) as per the contract with Food Corporation of India (FCI), which has been undertaken under its wholly-owned subsidiary - VRC Silos Private Limited.

Key financial indicators (audited)

VRC Consolidated	FY2021	FY2022
Operating income	645.6	908.9
PAT	70.5	115.5
OPBDIT/OI	16.6%	17.8%
PAT/OI	10.9%	12.7%
Total outside liabilities/Tangible net worth (times)^	0.8	1.3
Total debt/OPBDIT (times)	0.4	1.6
Interest coverage (times)	7.6	17.5

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore; ^Consolidated debt of VRC standalone, VRC DC Highways Private Limited, VRC Silos Private Limited and VRC Hotels Private Limited

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 Dec 31, 2022 (Rs. crore)	Date & rating in FY2023			Date & rating in FY2022	Date & rating in FY2021
					Mar 24, 2023	Aug 29, 2022	May 13, 2022	Sep 23, 2021	Mar 16, 2021
1	**Fund-based- Cash Credit**	Long term	44.00	-	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**
2	**Non-fund based - BG**	Long term and short term	577.00	-	**[ICRA]A (Stable)/ [ICRA]A2+**	-	-	-	-
3	**Non-fund based - BG**	short term	-	-	-	**[ICRA]A2+**	**[ICRA]A2+**	**[ICRA]A2+**	**[ICRA]A2+**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Cash Credit	Simple
Long-term/ Short-term Non-fund based– 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: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	44.00	[ICRA]A (Stable)
NA	Non-fund based Bank Guarantee	NA	NA	NA	577.00	[ICRA]A (Stable)/ [ICRA]A2+

Source: Company

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

Annexure II: List of entities considered for consolidated analysis

Company Name	VRCPL 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
VRC AC Highways Private Limited	100.00%	Limited Consolidation

Source: VRC; ICRA

Corrigendum:

Rationale dated March 24, 2023, has been revised with changes as below:

- In the footnote to Annexure II : List of entities considered for consolidated analysis on Page 6, the statement reading as “ICRA has taken a consolidated view of the parent (VRC) and its subsidiaries while assigning the ratings” is incorrect and has been removed.
- In the rating history table on Page 5, long-term rating for the PR dated May 13, 2022 has been corrected to [ICRA]A (Stable) from [ICRA]A-(Stable).

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