

June 28, 2024

## BVSR Constructions Private Limited: Rating reaffirmed; rated amount enhanced

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund based - Term loan	-	10.00	[ICRA]BBB+ (Stable); reaffirmed and assigned for enhanced amount
Long-term – Fund-based – Cash credit	10.00	15.00	[ICRA]BBB+ (Stable); reaffirmed and assigned for enhanced amount
Long-term – Non-fund based	220.00	265.00	[ICRA]BBB+ (Stable); reaffirmed and assigned for enhanced amount
Long-term – Unallocated limits	84.00	35.00	[ICRA]BBB+ (Stable); reaffirmed
<b>Total</b>	<b>314.00</b>	<b>325.00</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The rating reaffirmation for BVSR Construction Private Limited (BVSR) factors in its healthy outstanding order book of Rs. 3,020.2 crore as on May 29, 2024, and the expectation of improvement in revenues in FY2025 driven by robust order execution. The rating also considers improved order book diversification with ~49% of the order book funded by multilateral agencies (compared to 26% previously) due to the receipt of layout works in FY2024.

BVSR's strong operational track record, demonstrated by its ability to execute road construction and irrigation projects over the past fifteen years, supports its credit profile. BVSR's financial risk profile is adequate with TOL/TNW of 0.8 times as on March 31, 2024, and an interest cover of 5.1 times in FY2024. In the absence of any major debt-funded capex/investment plans, ICRA expects BVSR to maintain its comfortable leverage and debt coverage metrics in the medium term.

The rating is, however, constrained by high execution risk, with ~80% of its order book in the initial stages of execution (progress less than 10%). The majority of these orders were received in FY2024 and the company's ability to timely ramp up execution in a timely manner remains critical for revenue growth. Further, the geographical concentration risk is high with the entire order book confined to Andhra Pradesh, Telangana and West Bengal.

On account of sizeable cash losses in Nanda Chemicals Private Limited (NCPL), which were funded by BVSR and sizeable investments in Group companies, the company is exposed to asset liability mismatch (ALM). Nevertheless, the company has access to surpluses from its subsidiary road projects, BVSR Harda Betul Road Projects Private Limited (Harda), BVSR SSG Road Projects Private Limited (BVSR SSG) and G V Road Projects Private Limited (GV Road, rated [ICRA]A/Stable), mitigating the risk to an extent. BVSR Harda and SSG are debt free and are receiving annuities in a timely manner from Madhya Pradesh Road Development Corporation Limited (MPRDC). ICRA also notes that these SPVs are yet to receive six semi-annuities of Rs.8.1 crore (BVSR Harda) and Rs.15.8 crore (BVSR SSG). Furthermore, a large portion of BVSR's working capital requirement is funded by trade creditors and subcontractors. Any stretch in working capital cycle or delay in project execution could impact the company's revenues and liquidity position, which remains a key monitorable.

BVSR also has sizeable contingent liabilities in the form of bank guarantees (BG), mainly for contractual performance, mobilisation advances and security deposits. Any penalty or invocation of BG's on projects could have a bearing on its liquidity position. Nonetheless, ICRA draws comfort from BVSR's long presence in the industry, healthy execution track record and the fact that no guarantees have been invoked in the past.

BVSR has provided corporate guarantee to the working capital facilities of NCPL and has been consolidated for its assessment. NCPL manufactures sulfuric acid and di calcium phosphate (DCP). It achieved revenues of Rs. 55.9 in FY2024 which declined

from Rs. 77.2 crore due to cessation of DCP production due to high fluorine content. NCPL has reported a net loss of ~Rs. 43 crore in FY2024 due to the write-off finished DCP inventory, largely funded through an infusion of funds from BVSR.

Further, BVSR has high investments and group advances, which stood at Rs. 171.3 crore as on March 31, 2024 and increased from Rs. 152.6 crore as on March 31, 2023, representing 59% of its net worth. Therefore, any incremental investment towards Group companies or the addition of BOT projects, which could materially impact its liquidity position, remains a key rating monitorable.

The Stable outlook on the long-term rating reflects ICRA's opinion that BVSR's credit profile is expected to be adequate owing to healthy order book position and execution along with timely receipt of payments.

## Key rating drivers and their description

### Credit strengths

**Healthy order book position provides medium-term revenue visibility:** The company has an outstanding order book of ~Rs. 3020.2 as on May 29, 2024. Although around ~30-35% of the order book is slow-moving due to factors such as pending land acquisition, funding issues from state government and others, the adjusted order book remains healthy and provides medium term revenue visibility.

**Improved order book profile to support revenue growth:** Around 50% of the order book is funded by multilateral agencies compared to majority of the order book being from state government works in the past. Although BVSR's revenue grew to Rs. 356.6 crore in FY2024 from Rs. 189.4 crore in FY2023 due to improved order execution, the revenues remain significantly lower than pre-covid levels of Rs. 937.4 crore in FY2019. With an improved order book profile and expected healthy execution of key orders, revenue is expected to increase in the medium term, and the extent of improvement remains a key rating monitorable.

**Comfortable leverage and coverage metrics:** The company's capital structure has remained comfortable, as reflected in TOL/TNW of 0.8 times on March 31, 2024 (on a consolidated basis including NCPL). However, TOL/TNW adjusted for loans and advances provided to Group companies is higher at 1.9 times as on March 31, 2024. Interest coverage remains healthy at 5.1 times in FY2024, and is expected to remain comfortable in the medium term owing to low debt levels.

### Credit challenges

**Sizeable investments in Group companies and exposure to non-core investments:** The investments and advances to Group entities stood at Rs. 171.3 crore as on March 31, 2024 from Rs. 152.6 crore as on March 31, 2023. The total investments and advances are ~59% of the company's total net worth, which constrains its financial flexibility. Further, any significant incremental support towards the Group companies, or the addition of BOT projects impacting its liquidity position, will remain a key rating monitorable.

On a standalone basis, BVSR has provided loans and advances to NCPL and the amount stood at ~Rs. 106 crore as on March 31, 2024, which increased from Rs. 59.9 crore to support NCPL's cash losses and working capital requirements. BVSR has also extended corporate guarantee for NCPL's working capital limits (Rs. 10 crore of cash credit and Rs. 20.0 crore of letter of credit). NCPL achieved revenues of Rs. 61.1 crore and incurred a net loss in FY2024 owing to inventory loss. NCPL has suspended DCP manufacturing due to high fluorine content and is manufacturing sulphuric acid at present. NCPL expects to achieve revenues of more than Rs. 55 crore and attain operational break-even in FY2025.

**Concentrated order book:** The company's order book faces high execution risk, with ~80% of it in the initial stages of execution (less than 10%). The majority of these orders were received in FY2024, and the company's ability to ramp up the execution in a timely manner remains critical for revenue growth. Nonetheless, BVSR's established track record of execution and its track record of receiving timely extensions for its various projects in the past mitigate the risk to an extent. It also remains exposed to project concentration risk as the top five projects accounted for ~78% of the order book as on May 29, 2024. In FY2024,

BVSR diversified into layout works in addition to roads, bridges and irrigation segments. As on May 29, 2024, layout work accounts for 49.3%, roads and bridges accounts for 28.3% and balance from irrigation works.

**Risks associated with construction sector, including sizeable non-fund based exposure:** BVSR is exposed to the cyclicity 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 in the industry and established relationships with clients, provide comfort. Most of its 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. 131.9 crore as on March 31, 2024), mainly towards performance guarantee, mobilisation advances and security deposits. Nonetheless, ICRA draws comfort from BVSR's healthy execution track record and no invocation of guarantees in the past.

### Liquidity position: Adequate

BVSR's liquidity position is adequate with free cash balances of around Rs. 44.9 crore as on March 31, 2024 and sufficient cushion available in fund-based limits. The company has low debt repayment obligations and capex plans of Rs. 8-10 crore over the next 12 months. The cash flow from operations, along with its existing cash balances, is sufficient for the repayment obligations. In addition, the company enjoys flexibility through the provision to avail mobilisation advances against BGs for the recently awarded works.

### Rating sensitivities

**Positive factors** - The rating maybe upgraded upon sustained and significant increase in billing along with improvement in order book profile and profitability margins while maintaining low leverage, healthy coverage indicators and improving liquidity position.

**Negative factors** - Pressure on BVSR's rating could arise if the company is unable to improve the order execution/addition and/or deterioration in coverage and leverage metrics and/ or if there is a significant increase in exposure to Group companies and development (BOT) projects adversely impacting the coverage metrics or liquidity position. Specific credit metrics that would lead to a downgrade will include TOL/TNW increasing beyond 1.4 times on a sustained basis.

### Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology Construction</a>
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the rating, ICRA has consolidated the financials of BVSR and its subsidiaries –Nanda Chemicals Private Limited (NCPL) for which BVSR has provided corporate guarantee which is fully held by its promoters and has been consolidated for ICRA's assessment.

### About the company

Incorporated in 2001 as a partnership firm by the Late B.V. Subba Reddy and later converted into a private limited company in 2004, BVSR Constructions Private Limited (BVSR) is primarily involved in road construction and irrigation works. It is an ISO 9001-2008 certified construction company, with its presence largely confined to Andhra Pradesh and Telangana across roads, bridges and irrigation segments. It has a portfolio of two state road BOT annuity projects and one NHAI HAM project.

Nanda Chemicals Private Limited (NCPL) was incorporated on October 14, 2019 by Mr. Srinivasul Reddy Battalapally, promoter of BVSR Constructions Private Limited. The company is engaged in the production of DCP, sulfuric acid, hydrated lime, probiotics and gypsum.

BVSR Harda is an SPV promoted by BCPL, KCM Infratech Pvt Ltd and NSPR Constructions Pvt Ltd. MPRDCL awarded the BOT project to BVSR Harda on an annuity basis, the project concession period ends in March 2027. It has designed and rehabilitated the 29.3-kilometre (km) Harda-Chippaner Road and the 34.5-km Betul-Atner Road in Madhya Pradesh. The company completed the project in March 2014, and operates and maintains the roads.

BVSR SSG is an SPV promoted by BCPL, KCM Infratech Pvt Ltd, NSPR Constructions Pvt Ltd and Mr. Srinivasul Reddy. The company completed the project in March 2014, and now operates and maintains the roads. MPRDCL awarded the BOT project to BVSR SSG on annuity basis. The project concession period ends in March 2027. It has designed and rehabilitated the 29.6-km Sausar-Mohgaon-Mordongri Road, 22.3-km Sonapipari-Umreth-Monari-Umba Road and 32.1-km Gadarwara-Tendukheda Road in Madhya Pradesh.

GV Road Projects Private Limited (GVRPPL) is a subsidiary of BVSR Constructions Private Limited (sponsor). GVRPPL is an SPV formed to undertake the rehabilitation and upgradation of Giddalur (km-212.983) to Vinukonda (km-322.80) in Andhra Pradesh (total design length of 112.797 km) to two-lane with paved shoulder under HAM basis. The company signed a 17-year concession agreement (including construction period of two years) on May 07, 2018, with the NHAI. The project received final COD on November 07, 2022 for the entire stretch.

#### Key financial indicators

BVSR (Consolidated)	FY2023	FY2024*
Operating income	260.69	434.06
PAT	16.47	10.81
OPBDIT/OI	16.9%	7.5%
PAT/OI	6.3%	2.5%
Total outside liabilities/Tangible net worth (times)	0.9	0.8
Total debt/OPBDIT (times)	1.3	1.2
Interest coverage (times)	7.6	5.1

Source: Company, ICRA Research; \* Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

#### Status of non-cooperation with previous CRA: Not Applicable

#### Any other information: None

## Rating history for past three years

		Current rating (FY2025)			Chronology of rating history for the past 3 years			
Instrument	Type	Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022
				Jun 28, 2024	-	Mar 07, 2023	May 13, 2022	-
1 Term loans	Long term	10.0	Yet to avail	[ICRA]BBB+ (Stable)	-	-	-	-
2 Fund-based – Cash credit	Long term	15.0	-	[ICRA]BBB+ (Stable)	-	[ICRA]BBB+ (Stable)	[ICRA]A- (Stable)	-
3 Non-fund based	Long term	265.0	-	[ICRA]BBB+ (Stable)	-	[ICRA]BBB+ (Stable)	[ICRA]A- (Stable)	-
4 Unallocated limits	Long term	35.0	-	[ICRA]BBB+ (Stable)	-	[ICRA]BBB+ (Stable)	[ICRA]A- (Stable)	-

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Term loans	Simple
Fund-based – Cash credit	Simple
Non-fund based	Very simple
Unallocated limits	Not applicable

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	Term Loans		yet to avail		10.0	[ICRA]BBB+ (Stable)
NA	Fund-based – Cash credit	NA	NA	NA	15.0	[ICRA]BBB+ (Stable)
NA	Non-fund based	NA	NA	NA	265.0	[ICRA]BBB+ (Stable)
NA	Unallocated limits	NA	NA	NA	35.0	[ICRA]BBB+ (Stable)

Source: Company

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#### Annexure II: List of entities considered for consolidated analysis

Instrument	BVSR ownership	Consolidation Approach
Nanda Chemicals Private Limited	-	Full consolidation

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