August 29, 2024

GVPR Engineers Limited: Long-term rating reaffirmed; short-term rating upgraded; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based CC	360.00	450.00	[ICRA]A+ (Stable); reaffirmed and assigned for enhanced limits
Long-term – Non-fund based	3540.00	4300.00	[ICRA]A+ (Stable); reaffirmed and assigned for enhanced limits
Short-term – Interchangeable – Letter of credit	(410.00)	(410.00)	[ICRA]A1+; upgraded from [ICRA]A1
Short-term – Non-fund based	600.00	750.00	[ICRA]A1+; upgraded from [ICRA]A1 and assigned for enhanced limits
Total	**4500.0**	**5500.0**	

**Instrument details are provided in Annexure-I*

Rationale

The rating upgrade favourably factors in the healthy growth in GVPR Engineers Limited's (GVPR) revenues by 62% to Rs. 4,293.7 crore in FY2024 from Rs. 2,646.1 crore in FY2023, driven by the improved order execution. ICRA expects the company to sustain the scale of operations in the medium term, supported by its strong order book position of Rs. 13,020.7 crore as on June 30, 2024 (3 times of its operating income in FY2024). The ratings positively consider GVPR's strong liquidity position with sizeable unencumbered cash balances and investments[1], resulting in negative net debt position as on June 30, 2024. The ratings consider GVPR's improved order book profile with the share of Central Government and multi-lateral agencies-funded projects increasing to more than 50% of the order book as on June 30, 2024 from 6% as on March 31, 2020, which is likely to result in a comfortable cash conversion cycle. ICRA also notes the company's established track record of over four decades in the execution of irrigation and drinking water projects.

The rating strengths are, however, partially offset by the relatively moderate coverage metrics with PBDIT/interest at 4 times for FY2024. Its operating margins moderated to 9.1% in FY2024 from a peak of 11.8% in FY2022, because of increased subcontract expenses with many projects in the final stages of completion (erection involves sizeable deployment of manpower) and lower share of material supply, which generally have relatively higher margins than erection works. GVPR's operations are working capital intensive in nature and are partially funded by extended period from vendors and interest-bearing mobilisation advances, resulting in moderately leveraged capital structure with TOL/TNW at 1.3 times as on March 31, 2024. Adjusting for the free cash balances and investments, the net TOL/TNW stood comfortable at 0.4 times as on March 31, 2024. The order book is concentrated with top two segments (irrigation and drinking water) contributing to more than 78% and top 3 states accounting for 87% of the order book as on June 30, 2024.

ICRA notes the company's business diversification plans in the medium term towards smart meter, iron ore mining and port development. GVPR can comfortably meet the equity requirements towards its developmental projects, given its strong liquidity. However, the ramp-up in these developmental projects and the ability to generate healthy returns remains to be seen and remains a key rating monitorable going forward. Further, the company is exposed to the inherent cyclicality in the construction industry and intense competition in the tender-based contract award system, resulting in volatility in new order inflows, revenues, and pressure on margins. The company has sizeable contingent liabilities in the form of bank guarantees

[1] includes fixed deposits and mutual funds and excludes investments in subsidiaries.

and letter of credit, mainly towards performance guarantee, mobilisation advance, retention money and material purchase. Nonetheless, ICRA draws comfort from its execution track record and absence of any bank guarantee invocations in the past.

The Stable outlook reflects ICRA's opinion that GVPR will be able to sustain its scale of operations on the back of a strong order book position and execution along with timely receipt of payments from its key customers while maintaining unencumbered liquidity in excess of Rs. 600 crore on a sustained basis.

Key rating drivers and their description

Credit strengths

Healthy order book position to support revenue growth – GVPR's revenues increased by 62% to Rs. 4,293.7 crore in FY2024 from Rs. 2,646.1 crore in FY2023, largely driven by the improved execution of Jal Jeevan Mission (JJM) projects in Maharashtra, Uttar Pradesh, and Rajasthan. Its scale of operations is expected to sustain on the back of healthy order book position. In FY2024, the company received Rs. 4,694.4 crore of orders, thereby improving the order book position to Rs. 13,020.75 crore as on June 30, 2024, translating to order book to FY2024 operating income ratio of 3 times, providing medium-term revenue visibility. It achieved ~Rs. 954 crore of billings in Q1 FY2024 and the revenues are estimated to cross Rs. 4,500 crore in FY2025.

Strong liquidity position – The liquidity position is strong, with a sizeable unencumbered cash balance and investments, resulting in an negative net debt position as on June 30, 2024. Although GVPR's operations are working capital intensive in nature and are funded through extended credit period from vendors/sub-contractors and mobilisation advances, the leverage is moderate with TOL/TNW of 1.3 times as on March 31, 2024. Nonetheless, adjusting for the free cash balance, the net TOL/TNW stood comfortable at 0.4 times as on March 31, 2024.

Reputed client profile – The company has an established track record of over four decades in the execution of irrigation and drinking water projects with key orders from the Central Government funded Jal Jeevan Mission and corporations like Brihanmumbai Municipal Corporation, and Maharashtra Jeevan Pradhikaran, etc. Further, the share of Central Government and multi-lateral agencies-funded projects increased to more than 50% of the order book as on June 30, 2024 from 6% as on March 31, 2020, which is expected to result in a comfortable cash conversion cycle.

Credit challenges

Sizeable investments towards developmental projects – The company has entered into the smart meter segment, iron ore mining and port development as a part of their business diversification plans in the medium term. While GVPR can comfortably meet the equity requirements towards its developmental projects, given its strong liquidity, the ramp-up in these developmental projects and the ability to generate healthy returns remains to be seen and is a key rating monitorable going forward.

Concentrated order book – Although the order book is geographically diversified with orders spread across nine states, the top three states (Uttar Pradesh, Maharashtra, and Rajasthan) accounted for 87% of the order book as on June 30, 2024. Given its significant focus on irrigation and drinking water across the country, the company has secured multiple drinking water and irrigation projects and derived more than 80% of the total revenues in FY2024. Further, the irrigation works and water supply segments contributed to around 78% of the pending order book as on June 30, 2024, followed by sewage treatment plant works of around 17%. The revenue concentration on these is expected to continue in the medium term.

Stiff competition in construction industry – GVPR is exposed to the inherent cyclicality in the construction industry and intense competition in the tender-based contract award system, resulting in volatility in new order inflows, revenues, and pressure on margins. ICRA notes that the operating margins have moderated in the recent past to 9.1% in FY2024 from a peak of 11.8% in FY2022, because of increased subcontract expenses with many projects in the final stages of completion (erection involves sizeable deployment of manpower) and lower share of material supply, which generally have relatively higher margins than erection works.

Liquidity position: Strong

GVPR's liquidity position is strong, with unencumbered cash balance of ~Rs. 1,034 crore as on June 30, 2024. The company has debt repayment of Rs. 7.8 crore, moderate capex and investment plans in FY2025, which can be comfortably met through its cash flows from operations and existing cash balance. The average working capital utilisation for the past 12 months ending June 2024 remained moderate at 71%. The availability of sizeable free cash balances is expected to support the liquidity profile, going forward.

Rating sensitivities

Positive factors – ICRA may upgrade the ratings if the company sustains its revenues while improving its business diversification, profitability margins and maintains the liquidity position. A specific credit metric for an upgrade is TOL/TNW remaining lower than 1.0 times, on a sustained basis.

Negative factors – Pressure on GVPR's ratings may arise if there is any decline in billing or elongation of the working capital cycle resulting in material deterioration of liquidity position and/or weakening in debt protection metrics. A specific credit metric for a downgrade is TOL/TNW increasing beyond 1.75 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Construction
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has done limited consolidation of subsidiaries factoring in the equity commitments and support towards meeting any cash flow mismatches. Refer Annexure II.

About the company

GVPR Engineers Limited was founded by Mr. G.S.P. Veera Reddy in 1960s and later converted into a private limited company in 1997. It executes civil engineering contracts and electrical works. The company is focused on execution of engineering, procurement, and construction (EPC) contracts, especially in essential services such as water resource management, electric power, lift irrigation, STP, road, drinking water and sanitation and has a geographical presence across nine states. Recently, the company has entered into the smart meters segment, involving installation of smart meters and related infrastructure in West Bengal under Revamped Distribution Sector Scheme.

Key financial indicators (audited)

	FY2023	FY2024
Operating income	2646.1	4293.7
PAT	177.8	260.0
OPBDIT/OI	10.4%	9.1%
PAT/OI	6.7%	6.1%
Total outside liabilities/Tangible net worth (times)	1.6	1.3
Total debt/OPBDIT (times)	1.0	0.3
Interest coverage (times)	2.9	3.2

Source: Company, ICRA Research; 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

Instrument	Current (FY2025)			Chronology of rating history for the past 3 years							
	Type	Amount Rated (Rs Crore)	Aug 29, 2024	FY2024		FY2023		FY2022			
				Date	Rating	Date	Rating	Date	Rating	Date	Rating
Cash credit	Long-term	450.00	[ICRA]A+ (Stable)	Dec 29, 2023	[ICRA]A+ (Stable)	Sep 22, 2023	[ICRA]A+ (Stable)	Sep 06, 2022	[ICRA]A+ (Stable)	Sep 24, 2021	[ICRA]A (Positive)
Bank guarantee	Long-Term	4300.00	[ICRA]A+ (Stable)	Dec 29, 2023	[ICRA]A+ (Stable)	Sep 22, 2023	[ICRA]A+ (Stable)	Sep 06, 2022	[ICRA]A+ (Stable)	Sep 24, 2021	[ICRA]A (Positive)
Interchangeable Letter of credit	Short -term	(410.00)	[ICRA]A1+	Dec 29, 2023	[ICRA]A1	-	-	-	-	-	-
Letter of credit	Short Term	750.00	[ICRA]A1+	Dec 29, 2023	[ICRA]A1	Sep 22, 2023	[ICRA]A1	Sep 06, 2022	[ICRA]A1	Sep 24, 2021	[ICRA]A1

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based – Cash credit	Simple
Non-fund based – Bank guarantee	Very Simple
Interchangeable – Letter of credit	Very Simple
Non-fund based – Letter of credit	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	Fund-based – Cash credit	NA	NA	NA	450.00	[ICRA]A+ (Stable)
NA	Non-fund based – Bank guarantee	NA	NA	NA	4300.00	[ICRA]A+ (Stable)
NA	Interchangeable – Letter of credit	NA	NA	NA	(410.00)	[ICRA]A1+
NA	Non-fund based – Letter of credit	NA	NA	NA	750.00	[ICRA]A1+

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	Ownership	Consolidation approach
Vijaya Wb Smart Meters Private Limited	100%	Limited Consolidation
Honnavar Port Private Limited	94%	Limited Consolidation

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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