January 02, 2025

Vishal Infrastructure Limited: Ratings upgraded to [ICRA]BBB+/[ICRA]A2; outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based – Cash credit	106.50	114.50	[ICRA]BBB+ (Stable); Upgraded from [ICRA]BBB (Positive) and outlook revised to Stable from Positive
Long-term/short-term Non-fund-based bank guarantee	293.60	285.60	[ICRA]BBB+ (Stable)/[ICRA]A2; Upgraded from [ICRA]BBB(Positive)/ [ICRA]A3+ and outlook revised to Stable from Positive
Total	**400.10**	**400.10**	

**Instrument details are provided in Annexure-I*

Rationale

The upgrade in the ratings of Vishal Infrastructure Limited (VIL) reflects the sustained improvement in its scale of operations and coverage metrics, with interest coverage likely to remain around 4 times in the coming year (compared to 3.1 times in FY2023). The rating action favourably factors in the healthy order book position of Rs. 1,705 crore as of November 2024, with OB/OI of 2.9 times, which provides medium-term revenue visibility. The rating upgrade considers the expectation of healthy revenue base on the backdrop of strong revenue growth of 39% to Rs. 587.0 crore in FY2024 from Rs. 423.6 crore in FY2023, given the improved order inflow and execution. Further, the ratings consider VIL's established track record in execution of airport runways and terminal buildings, specialised and classified buildings, and roads and its reputed clientele majorly consisting of Government entities including the Airport Authority of India (AAI), Defence Research and Development Organisation (DRDO), Military Engineer Services (MES) and Rail Land Development Authority (RLDA), etc.

The rating is, however, constrained by the moderate operating margins at around 9% owing to intense competition in the sector and high customer concentration risk with 80% of revenues derived from the AAI and DRDO over the past three years. Nevertheless, the customer concentration risk is expected to reduce with receipt of fresh orders from new customers including RLDA, Adani Airports and Dalai Lama Trust, etc. The average utilisation of working capital limits remained high at 87% in the current financial year (till November 2024). However, the sanction of project-specific limits and availing of interest-free mobilisation advances is expected to support the liquidity position going forward. The company's ability to sustain adequate liquidity cushion remains crucial from the credit perspective and remains a key rating monitorable. VIL has reduced their dependency on high interest-bearing mobilisation advances, and thereby improved the interest coverage ratio to 4.1 times in FY2024 from 2.1 times in FY2022. At present, the company is availing project-specific limits at lower rates instead of mobilisation advances, and the interest cost is expected to remain at similar levels going forward, supporting the coverage metrics. ICRA notes the stiff competition in business, characterised by the presence of large number of players, along with a tender-based contract awarding system, which keeps the operating margins under check.

ICRA notes an instance of invocation of bank guarantee by AAI for Rs. 11.11 crore in July 2024, on account of discrepancy in final bill computations. Although the Delhi High Court has granted relief in the form of a stay order against the invocation, the lenders have transferred the amount to AAI and the company had immediately paid the BG invocation amount to the lenders. Further, the court has directed AAI to deposit the invoked amount of Rs. 11.11 in the registry of the court and the matter is sub-judice currently. While this invocation is a one-off incident, this poses a general risk for VIL in the future as it has outstanding BGs of Rs. 221 crore as on March 31, 2024.

The Stable outlook on the long-term rating reflects that the company will be able to maintain its credit profile on the back of healthy order book position and track record of timely receipt of payments from its key customers, which is expected to support its scale of operations and liquidity profile.

Key rating drivers and their description

Credit strengths

Healthy order book position – The company's order book position is healthy at Rs. 1,705 crore as on November 30, 2024, with OB/OI of 2.9 times, which provides medium-term revenue visibility. Its revenues witnessed strong growth of 39% to Rs. 587.0 crore in FY2024 from Rs. 423.6 crore in FY2023. The revenue is expected to remain above Rs. 550 crore in the medium term on the back of healthy order book position, improved order inflow and execution.

Reputed client profile resulting in low counterparty credit risk – VIL's client profile is reputed majorly consisting of Central Government entities including the AAI, DRDO, MES and RLDA, which results in a low counterparty credit risk. The strong client profile is likely to result in timely receipt of payments from its key customers, which is expected to support its cash flow and liquidity position. Further, the company primarily executes works in airport runways and terminal buildings, specialised and classified buildings, and roads. It has successfully completed many civil construction projects in these segments over the years and has derived around 50% of revenues from airport runways and buildings over the past five years.

Comfortable coverage and leverage metrics – The company's financial risk profile is comfortable with interest coverage of 4.1 times in FY2024 and TOL/TNW of 0.97 times as on March 31, 2024. VIL has reduced their dependency on interest-bearing mobilisation advances and thereby improved the interest coverage ratio to 4.1 times in FY2024 from 2.1 times in FY2022. At present, the company is availing project-specific limits at lower rates instead of mobilisation advances, and the interest cost is expected to remain at similar levels going forward, supporting the coverage metrics in the medium term.

Credit challenges

High client concentration – The company's revenues are concentrated with over 80% derived from the AAI and DRDO in the past three years. Further, the top three clients (DRDO, MES and RLDA) account for 73% of the order book as of November 2024. However, VIL has diversified its order book with addition of orders from new clients such as the RLDA, Adani Airports, and Dalai lama Trust, among others, which is expected to reduce the customer concentration to an extent in the medium term.

Moderate working capital intensity – VIL's operations remains working capital intensive, with sizeable funds blocked in inventory, work-in-process (awaiting certification) and receivables. The company has modest cushion in the working capital limits with average utilisation of 87% in the current financial year (till November 2024). Nevertheless, the sanction of project-specific limits, availing interest-free mobilisation advances and timely receipt of payments is expected to support the liquidity profile going forward and remains a key rating monitorable.

Risks associated with construction sector, including sizeable non-fund based exposure – The company is exposed to intense competition in the business, characterised by the presence of a large number of players, along with a tender-based contract awarding system, resulting in volatility in revenue and pressure on margins. Given this, the operating margins are moderate at around 9% and are expected to remain at similar levels in the medium term. Further, there was an instance of invocation of bank guarantee by AAI for Rs. 11.11 crore in July 2024, on account of discrepancy in final bill computations. Although the Delhi High Court granted relief in the form of stay order against the invocation, the lenders have transferred the amount to AAI and the company had immediately paid the BG invocation amount to the lenders. Further, the court has directed AAI to deposit the invoked amount of Rs. 11.11 in the registry of the court and the matter is sub-judice currently. While this invocation is a one-off incident, this poses a general risk for VIL in the future, as it has outstanding BGs of Rs. 221 crore as on March 31, 2024.

Liquidity position: Adequate

The company's liquidity position is adequate with cushion in working capital limits of around Rs. 10 crore and free cash balances of Rs. 7.14 crore (including unencumbered fixed deposits of Rs. 5 crore) as on September 30, 2024. The fund-based utilisation has been higher at 87% in the current financial year (till November 2024). However, the sanction of project-specific limits, availing of interest-free mobilisation advances, low debt repayments, absence of major capital expenditure plans and timely receipt of payments from its key customers is expected to support the liquidity position.

Rating sensitivities

Positive factors – The ratings could be upgraded upon significant increase in revenues and profitability margins resulting in improvement in debt coverage metrics and liquidity position on a sustained basis.

Negative factors – Pressure on the ratings could arise if any delays in execution of its projects or stretch in its working capital cycle results in weakening of its liquidity and debt coverage metrics. Specific credit metrics that would lead to a rating downgrade will include interest coverage remaining below 3.5 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	Standalone

About the company

Incorporated in 1990, Vishal Infrastructure Limited (VIL) is a closely-held company based out of Bangalore. It executes civil construction work for the airport sector, defence industry, public sector undertakings (PSUs) and other Central Government entities. VIL's clientele includes AAI, MES, DRDO, RLDA, Adani Airports, among others. The company's order book is diversified across various states of the country including Rajasthan, Jammu and Kashmir, Uttar Pradesh, Bihar, Assam, among others.

Key financial indicators (audited)

	FY2023	FY2024
Operating income	423.6	587.0
PAT	18.0	26.1
OPBDIT/OI	10.3%	8.9%
PAT/OI	4.3%	4.5%
Total outside liabilities/Tangible net worth (times)	1.5	1.0
Total debt/OPBDIT (times)	1.7	1.2
Interest coverage (times)	3.1	4.1

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: India Ratings has outstanding ratings of IND BB (Stable)/ IND A4+, ISSUER NOT COOPERATING according to its rationale dated July 14, 2024.

Any other information: None

Rating history for past three years

	Current (FY2025)			Chronology of rating history for the past 3 years					
	FY2025			FY2024		FY2023		FY2022	
Instrument	**Type**	**Amount Rated (Rs. crore)**	**02-JAN-2025**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**
Long term-cash credit-fund based	Long Term	114.50	[ICRA]BBB+ (Stable)	28-NOV-2023	[ICRA]BBB (Positive)	18-OCT-2022	[ICRA]BBB (Stable)	30-SEP-2021	[ICRA]BBB (Stable)
Long term / short term-bank guarantee-non fund based	Long Term/ Short Term	285.60	[ICRA]BBB+ (Stable)/ [ICRA]A2	28-NOV-2023	[ICRA]BBB (Positive)/ [ICRA]A3+	18-OCT-2022	[ICRA]BBB (Stable)/ [ICRA]A3+	-	-
Unallocated	Long Term/ Short Term	-	-	-	-	18-OCT-2022	[ICRA]BBB (Stable)/ [ICRA]A3+	30-SEP-2021	[ICRA]BBB (Stable)/ [ICRA]A3+
Bank guarantee	Short term	-	-	-	-	-	-	30-SEP-2021	[ICRA]A3+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Cash credit	Simple
Long-term/Short-term – 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	114.50	[ICRA]BBB+ (Stable)
NA	**Bank guarantee**	NA	NA	NA	285.60	[ICRA]BBB+ (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: Not Applicable

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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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