

August 28, 2017

## GVPR Engineers Limited

### Summary of rated instruments

| Instrument*                           | Rated Amount<br>(Rs. crore) | Rating Action                         |
|---------------------------------------|-----------------------------|---------------------------------------|
| Fund-based – Cash Credit              | 245.00<br>(earlier 197.00)  | [ICRA]A (Stable); Reaffirmed          |
| Long term-Non-fund based              | 778.00<br>(665.00)          | [ICRA]A (Stable); Reaffirmed          |
| Short term- Non fund based            | 220.00<br>(163.000)         | [ICRA]A1; Reaffirmed                  |
| Long Term/ Short Term- Non fund Based | 407.00<br>(375.00)          | [ICRA]A(Stable)/[ICRA]A1 ; Reaffirmed |
| Long term/Short term- Unallocated     | 250.00<br>(250.00)          | [ICRA]A(Stable)/[ICRA]A1 ; Reaffirmed |
| <b>Total</b>                          | <b>1900.00</b>              |                                       |

\*Instrument details are provided in Annexure-1

### Rating action

ICRA has reaffirmed the long-term rating of [ICRA]A (pronounced ICRA A) to the Rs. 245.00-crore<sup>1</sup> (earlier Rs.197.00 crore) fund based facilities, Rs.778.00 crore (Rs. 665.00 crore) non fund based limits and a short-term rating of [ICRA]A1 (pronounced ICRA A one) to the Rs.220 crore (Rs. 163.00 crore) non-fund based bank facilities of GVPR Engineers Limited (GVPR or the company)<sup>2</sup>. ICRA has also reaffirmed the ratings of [ICRA]A/ICRA A1 to the Rs.407.00 crore (earlier Rs.375.00 crore) long term/short term-non fund based limits and assigned ratings of [ICRA]A(Stable)/[ICRA]A1 to the Rs.250.00 crore(earlier Rs.250.00 crore) unallocated limits of GVPR Engineers Limited. The outlook on the long-term rating is 'stable'.

### Rationale

The rating reaffirmation takes into account the healthy order book of Rs.3,931 crore as on March 31, 2017(2.8 times operating income of FY2017) supported by fresh inflows of orders worth Rs. 2,109 crore in FY2017, which provides revenue visibility over the medium term. ICRA also notes that the company has received orders worth Rs. 545.82 crore in 5M FY2018. Additionally, the financial profile of the company continues to remain healthy with TOL/TNW<sup>3</sup> of 1.28 times, interest coverage of 2.26 times and Total debt/EBITDA<sup>4</sup> of 1.39 times. Although the revenues and overall financial performance in FY2017 was not in line with ICRA estimates owing to lower than anticipated billing in two major projects viz. Telangana Drinking Water Supply Project (TDWSP) and Yettinahole drinking water supply project and higher overhead costs, the overall liquidity profile of the company continues to remain healthy with average utilization of cash credit limits at 41% during April 2016 to June 2017. Given that the Telangana Drinking Water Supply project with Rs.1425 crore of unexecuted portion is required to be completed in current fiscal, the gross billing during current year is expected to increase significantly. The company has

<sup>1</sup> 100 lakh = 1 crore = 10 million

<sup>2</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

<sup>3</sup> TOL/TNW means Total outside liabilities/Total net worth

<sup>4</sup> TD/OPBDIT means Total debt/Operating profit before depreciation, interest and taxes

also received new orders in the electricity segment worth ~ Rs.786 crore during FY2017 thereby reducing the segment concentration of orders from irrigation/drinking water. The rating also draws comfort from strong track record of management in execution of Engineering, Procurement and construction (EPC) contracts with over three decades experience in the industry.

The ratings are however constrained by the project and client concentration risk as TDWSP is expected to contribute to ~51% of FY2018 revenues. Also, the execution slowed post demonetisation with no commensurate reduction in work site expenses resulting in under absorption of overheads and consequently the operating profitability declined to 5.73% in FY2017 from 7.46% in FY2016. Also, GVPR is exposed to execution risks for newly awarded projects (projects which have achieved less than 20% financial progress) which accounted for around 38% of its total order book.

Going forward, the ability of the company to improve its operating margins, maintain its working capital cycle and faster ramp up in execution across its large and new orders will be critical to achieve growth in its revenues and profits.

### Key rating drivers

#### Credit strengths

- Healthy order book provides revenue visibility for the medium term: GVPR's closing order book as on March 31, 2017 stood at Rs. 3931 crore (supported by fresh inflows of orders worth Rs. 2109 crore in FY2017), which is 2.8 times the OI for FY2017 providing adequate revenue visibility for the medium term. The order book is reasonably diversified across irrigation (40%), drinking water (21%) and electrical works segments (39%). Further, GVPR has also received orders worth Rs.546 crore during 5M FY2018
- Healthy financial profile with conservative capital structure: Financial profile continues to remain healthy with TOL/TNW of 1.28 times as on March 31, 2017, interest coverage of 2.26 times, Total debt/EBITDA of 1.39 times in FY2017
- Comfortable liquidity position: GVPR's liquidity profile is strong with average utilization of cash credit limits at 41% during April 2016 to June 2017
- Extensive experience of the promoters in the construction industry along with healthy execution track record : The management has long experience spanning more than three decades across various segments like water supply & lift irrigation projects, civil works and EPC of transmission and distribution lines & substations

#### Credit weaknesses

- **High project concentration risk:** GVPR is exposed to project and client concentration risks as TDWSP is expected to contribute to ~51% of FY2018 revenues, **any slowdown in TDWSP to adversely affect FY2018 revenues and profitability.** However, ICRA notes that TDWSP is one of the flagship projects of the Telangana state government which has set a target of completing this project in the current financial year
- **Decline in operating margins in FY2017 owing to increase in work site expenses-** The execution slowed post demonetisation with no commensurate reduction in work site expenses resulting in under absorption of overheads and consequently the operating profitability declined to 5.73% in FY2017 from 7.46% in FY2016, as many expenses are fixed in nature
- **Execution risks for newly awarded projects:** About 38% of the current order book has achieved less than 20% financial progress thereby exposing GVPR to execution risks. However, ICRA notes that the required approvals are in place for the projects awarded during FY2017



**Analytical approach:** For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

**Links to applicable criteria:**

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Construction Entities](#)

**About the company:**

GVPR Engineers Limited was incorporated in 1997 by Mr. G.S.P. Veera Reddy and his family members for executing civil engineering projects. The company diversified from civil construction projects into engineering, procurement and construction (EPC) services for electrical and irrigation works. Currently, GVPR's operations can be broadly divided into three segments viz. water supply & lift Irrigation projects, civil works and EPC of transmission and distribution lines & substations.

**Key Financial Indicators**

|                              | FY2016   | FY2017   |
|------------------------------|----------|----------|
| Operating Income (Rs. crore) | 1,359.03 | 1,413.99 |
| PAT (Rs. crore)              | 45.06    | 37.76    |
| OPBDIT/ OI (%)               | 7.46%    | 5.73%    |
| RoCE (%)                     | 24.86%   | 19.14%   |
|                              |          |          |
| Total Debt/ TNW (times)      | 0.08     | 0.26     |
| Total Debt/ OPBDIT (times)   | 0.33     | 1.39     |
| Interest coverage (times)    | 2.33     | 2.26     |
| NWC/ OI (%)                  | 19%      | 16%      |

*OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress);*

*NWC: Net Working Capital*

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for last three years:**
**Table:**

| S. No. | Instrument     | Current Rating (FY2018) |                          |                           | Chronology of Rating History for the past 3 years |                             |                              |
|--------|----------------|-------------------------|--------------------------|---------------------------|---|-----------------------------|------------------------------|
|        |                | Type                    | Amount Rated (Rs. crore) | Date & Rating             | Date & Rating in FY2017                           | Date & Rating in FY2016     | Date & Rating in FY2015      |
|        |                |                         |                          | August 2017               | July 2016   | June 2015                   | May 2014                     |
| 1      | Fund based     | Long Term               | 245.00                   | [ICRA]A (Stable)          | [ICRA]A (Stable)                                  | [ICRA]A- (Stable)           | [ICRA]BBB+ (Stable)          |
| 2      | Non Fund based | Long Term               | 778.00                   | [ICRA]A (Stable)          | [ICRA]A (Stable)                                  | [ICRA]A- (Stable)           | [ICRA]BBB+ (Stable)          |
| 3      | Non Fund based | Short Term              | 220.00                   | [ICRA]A1                  | [ICRA]A1  | [ICRA]A2+                   | [ICRA]A2                     |
| 4      | Non Fund based | Long term/Short term    | 407.00                   | [ICRA]A (Stable)/[ICRA]A1 | [ICRA]A (Stable)/[ICRA]A1                         | [ICRA]A- (Stable)/[ICRA]A2+ | [ICRA]BBB+ (Stable)/[ICRA]A2 |
| 5      | Unallocated    | Long term/Short term    | 250.00                   | [ICRA]A (Stable)/[ICRA]A1 | -   | -                           | -                            |

**Complexity level of the rated instrument:**

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

**Annexure-1**  
**Instrument Details**

| <b>Instrument</b>                     | <b>Date of Issuance / Sanction</b> | <b>Coupon Rate</b> | <b>Maturity Date</b> | <b>Amount Rated (Rs. crore)</b> | <b>Current Rating and Outlook</b> |
|---------------------------------------|------------------------------------|--------------------|----------------------|---------------------------------|-----------------------------------|
| Cash Credit                           | -                                  | -                  | -                    | 245.00                          | [ICRA]A (Stable)                  |
| Non –fund based –Long term            | -                                  | -                  | -                    | 778.00                          | [ICRA]A (Stable)                  |
| Non –fund based –Short term           | -                                  | -                  | -                    | 220.00                          | [ICRA]A1                          |
| Non –fund based –Long term/Short term | -                                  | -                  | -                    | 407.00                          | [ICRA]A (Stable)/[ICRA]A1         |
| Unallocated                           | -                                  | -                  | -                    | 250.00                          | [ICRA]A (Stable)/[ICRA]A1         |

Source: GVPR

## Contact Details

### Analyst Contacts

#### Analyst Contacts

**K. Ravichandran**

+91 44 4596 4301

[ravichandran@icraindia.com](mailto:ravichandran@icraindia.com)

**Shubham Jain**

+91 124 4545306

[shubhamj@icraindia.com](mailto:shubhamj@icraindia.com)

**Rajeshwar Burla**

+91 40 4067 6527

[rajeshwar.burla@icraindia.com](mailto:rajeshwar.burla@icraindia.com)

**Abhiram Varal**

+91 40 4067 6523

[abhiram.varal@icraindia.com](mailto:abhiram.varal@icraindia.com)

### Relationship Contact

**L.Shiva Kumar**

+91 22 6114 3406

[shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

#### 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.

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**Registered Office****ICRA Limited**

1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001  
Tel: +91-11-23357940-50, Fax: +91-11-23357014

**Corporate Office****Mr. Vivek Mathur**

Mobile: +91 9871221122

Email: [vivek@icraindia.com](mailto:vivek@icraindia.com)

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002  
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

**Mumbai****Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: [shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

3rd Floor, Electric Mansion  
Appasaheb Marathe Marg, Prabhadevi  
Mumbai—400025,  
Board : +91-22-61796300; Fax: +91-22-24331390

**Kolkata****Mr. Jayanta Roy**

Mobile: +91 9903394664

Email: [jayanta@icraindia.com](mailto:jayanta@icraindia.com)

A-10 & 11, 3rd Floor, FMC Fortuna  
234/3A, A.J.C. Bose Road  
Kolkata—700020  
Tel +91-33-22876617/8839 22800008/22831411,  
Fax +91-33-22870728

**Chennai****Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: [jayantac@icraindia.com](mailto:jayantac@icraindia.com)

5th Floor, Karumuttu Centre  
634 Anna Salai, Nandanam  
Chennai—600035  
Tel: +91-44-45964300; Fax: +91-44 24343663

**Bangalore****Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: [jayantac@icraindia.com](mailto:jayantac@icraindia.com)

'The Millenia'  
Tower B, Unit No. 1004, 10th Floor, Level 2 12-14, 1 & 2,  
Murphy Road, Bangalore 560 008  
Tel: +91-80-43326400; Fax: +91-80-43326409

**Ahmedabad****Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: [shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

907 & 908 Sakar -II, Ellisbridge,  
Ahmedabad- 380006  
Tel: +91-79-26585049, 26585494, 26584924; Fax:  
+91-79-25569231

**Pune****Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: [shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range  
Hills Road, Shivajinagar, Pune-411 020  
Tel: + 91-20-25561194-25560196; Fax: +91-20-  
25561231

**Hyderabad****Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: [jayantac@icraindia.com](mailto:jayantac@icraindia.com)

4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj  
Bhavan Road, Hyderabad—500083  
Tel:- +91-40-40676500