

November 28, 2023

## Vishal Infrastructure Limited: Ratings reaffirmed; rated amount enhanced; Outlook revised to Positive

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term: Fund-based – Cash credit	52.00	106.50	[ICRA]BBB; Reaffirmed/Assigned; Outlook revised to Positive from Stable
Long-term/ short-term: Non-fund-based bank guarantee	175.00	293.60	[ICRA]BBB/[ICRA] A3+; Reaffirmed/Assigned; Outlook revised to Positive from Stable
Long-term/ short-term: unallocated	33.00	0.00	-
<b>Total</b>	<b>260.00</b>	<b>400.10</b>	

\*Instrument details are provided in Annexure I

### Rationale

The revision in outlook to Positive on the long-term rating of Vishal Infrastructure Limited (VIL) reflects ICRA's expectation that credit profile of the entity will witness improvement in the near to medium term in the backdrop of improved scale of operations, supported by the robust order book of Rs 1,460.3 crore which provides healthy revenue visibility. ICRA notes that VIL's revenue witnessed strong 44% YoY growth to Rs 423.6 crore in FY2023, and the strong revenue growth momentum is expected to sustain in FY2024 as well. Further, the ratings factor in the established track record of VIL in the execution of airport runways and terminal buildings, specialized and classified buildings, roads and industrial buildings and its reputed clientele majorly consists of Government entities including the Airport Authority of India (AAI), Defence Research and Development Organisation (DRDO), Military Engineer Services (MES), Central Public Works Department (CPWD), and Rail Land Development Authority (RLDA) etc. The rating also considers diversification of its customer profile with receipt of fresh orders from new customers including RLDA, Adani Airports and Dalai Lama Trust in the past 12 months.

The rating is, however, constrained by the moderate financial risk profile of the company with interest coverage of 3.1 times and TOL/TNW of 1.5 times in FY2023 on account of high interest-bearing mobilisation advances. Given that the company is currently availing project-specific finance limits instead of mobilisation advances, the interest cost is expected to remain at similar levels. Nonetheless, with expected improvement in scale of operations and moderate profitability margins, the interest cover is expected to improve in the medium term. ICRA notes that the company has limited cushion in the working capital limits in the current year with average utilization of more than 80% and 90% of fund-based and non-fund-based limits respectively during Apr-Sep 2023. The sanction of project specific limits is expected to improve the liquidity going forward and remains the key rating monitorable. ICRA notes the stiff competition in the 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. Although the company's revenues are concentrated with over 80% derived from the AAI and DRDO over the past three years, longstanding relationship and track-record of satisfactory execution mitigates the risk to an extent.

The Positive outlook on the company's long-term rating reflects ICRA's expectation that its scale of operations is expected to improve driven by healthy order book position and execution while liquidity position is expected to be supported by timely receipt of payments from its key customers.

## Key rating drivers and their description

### Credit strengths

**Healthy growth in revenues** – The company’s revenues have increased from Rs. 294.6 crore in FY2022 to 423.6 crore in FY2023 on the back of improved order execution and will witness improvement in the near to medium term in the backdrop of improved scale of operations and healthy order book position of Rs. 1460.3 crore as of June 2023, which is 3.5 times of FY2023 revenues. The company has further received orders worth Rs. 279.6 crore in Q2 FY2024 and is declared as the L1 bidder for two projects worth of Rs. 325 crore which is expected to support the revenue growth in the medium term.

**Reputed client profile resulting in low counterparty credit risk** - VIL primarily executes work for Central Government agencies, which results in low counterparty credit risk. At present, the company’s key clientele includes agencies like the AAI, RLDA and DRDO, which accounts for more than 80% of the order book as of June 2023. This apart, it also undertook projects for the Adani Airports, RLDA, and Dalai lama Trust among others.

**Established track record in the execution of airport runways and terminals, and industrial buildings** – VIL had successfully completed many civil construction projects including airport buildings, airport runways, industrial buildings, specialized and classified buildings, roads among others. It derived around 50% of revenues from airport runways and buildings in the past five years.

### Credit challenges

**Moderate financial risk profile** – The company’s financial risk profile is moderate with interest coverage of 3.1 times and TOL/TNW of 1.5 times in FY2023, majorly on account of high interest-bearing mobilisation advances being availed by the company. Given that the company is availing project-specific finance limits instead of mobilisation advances, the interest cost is expected to remain at similar levels. With improvement in scale of operations and moderate profitability margins, the interest cover is expected to improve in the medium term. Further, the company has limited cushion in the working capital limits in the current year with average utilization of more than 80% and 90% of fund-based and non-fund-based limits respectively during Apr-Sep 2023. Nevertheless, the sanction of project specific limits is expected to improve the liquidity going forward and remains the key rating monitorable.

**High client concentration** – The company’s revenues are concentrated with over 80% derived from the AAI and DRDO over the past three years. The company has longstanding relationship with these clients and its satisfactory track-record of execution mitigates the risk to an extent. Moreover, the company was able to diversify its order book with addition of orders from new clients such as the RLDA, Adani Airports, and Dalai lama Trust among others.

**Intense competition in construction industry** - The company is exposed to intense competition in the business, characterised by the presence of large number of players along with a tender-based contract awarding system, resulting in volatility in revenue and pressure on margins. The operating margins remained moderate at 10.3% in FY2023 but improved from 9.9% in FY2022, on account of increased scale of operations.

### Liquidity position: Adequate

The liquidity position of the company is adequate with cushion in working capital limits of around Rs. 13 crore and free cash balances of Rs. 10.1 crore as on March 31, 2023. Low debt repayments, absence of any significant debt-funded capital expenditure and timely receipt of payments from its key customers is likely to support its liquidity position. Given the expected increase in scale of operations, the sanction of project-specific limits remains key for its improvement in liquidity position.

## Rating sensitivities

**Positive factors** - ICRA could upgrade the ratings if the company demonstrates sustained improvement in the scale of operations along with improvement in its profitability 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. Specific credit metrics that would lead to a rating downgrade will include interest coverage remaining below 2.8 times on a sustained basis.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Construction Entities</a>
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, defense industry, public sector undertakings (PSUs) and other Central Government entities. VIL's clientele includes AAI, CPWD, 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

	FY2022	FY2023
Operating income	294.6	423.6
PAT	8.9	18.0
OPBDIT/OI	9.9%	10.3%
PAT/OI	3.0%	4.3%
Total outside liabilities/Tangible net worth (times)	1.6	1.5
Total debt/OPBDIT (times)	1.5	1.7
Interest coverage (times)	2.1	3.1

Source: Company, ICRA Research; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

**Status of non-cooperation with previous CRA:** India Ratings has outstanding ratings of IND BB/IND A4+, ISSUER NOT COOPERATING according to its rationale dated July 24, 2023.

**Any other information:** None

## Rating history for past three years

Instrument	Type	Current rating (FY2024)			Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
				Nov 28, 2023	Oct 18, 2022	Sep 30, 2021	Jun 18, 2020	
1	Cash credit	Long term	106.50	45.13	[ICRA] BBB (Positive)	[ICRA] BBB (Stable)	[ICRA] BBB (Stable)	[ICRA] BBB (Stable)
2	Bank guarantee	Long term/Short term	293.60	185.16	[ICRA] BBB (Positive)/ [ICRA]A3+	[ICRA] BBB (Stable)/ [ICRA]A3+	-	-
3	Bank guarantee	Short term	0.00	-	-	-	[ICRA]A3+	[ICRA]A3+
4	Unallocated	Long term/Short term	0.00	-	-	[ICRA] BBB (Stable)/ [ICRA]A3+	[ICRA] BBB (Stable)/ [ICRA]A3+	[ICRA] BBB (Stable)/ [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	106.50	[ICRA] BBB (Positive)
NA	Bank guarantee	NA	NA	NA	293.60	[ICRA] BBB (Positive)/ [ICRA]A3+

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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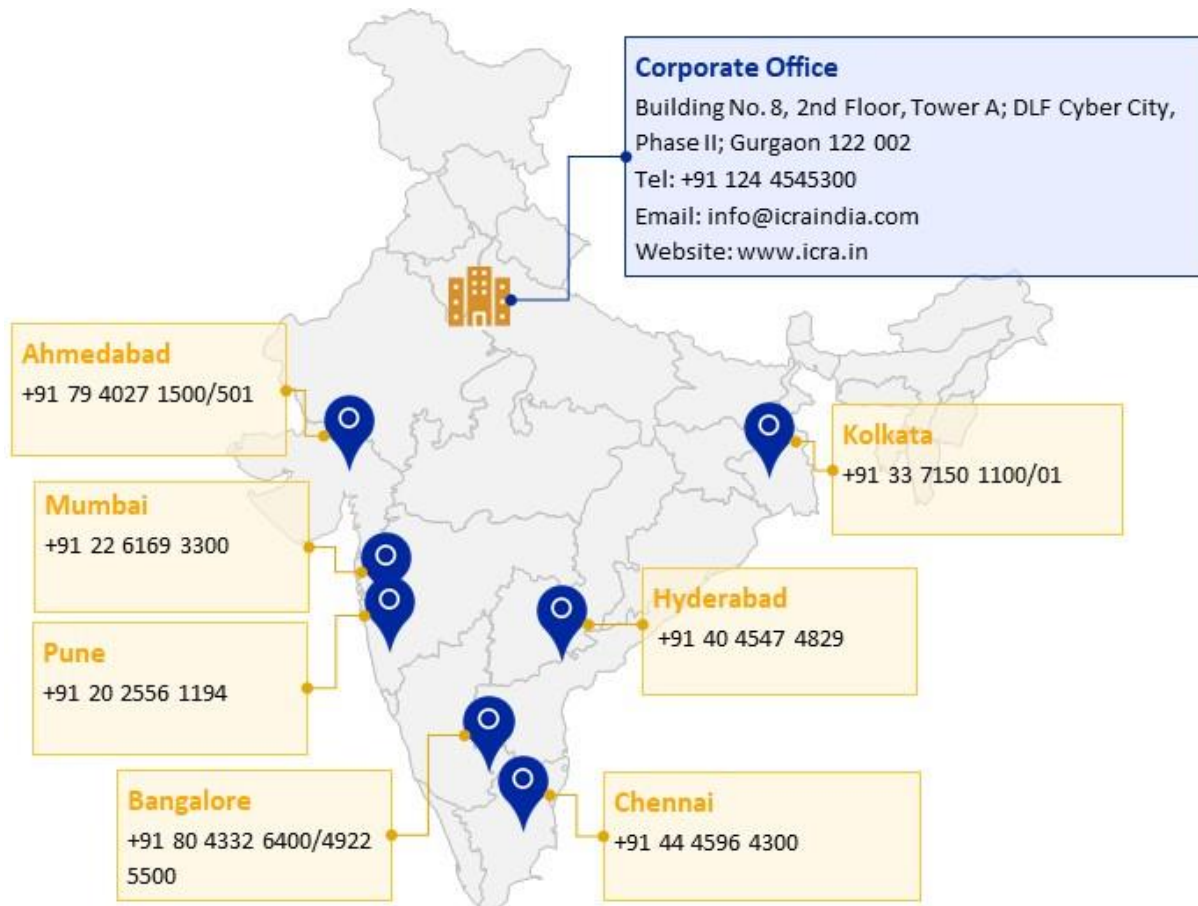
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