

## Vishal Infrastructure Limited

April 03, 2018

### Summary of rated instruments

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Fund Based – Cash credit	45.00	[ICRA]BBB (Stable); Assigned
Short Term – Non-fund Based - Bank Guarantee	165.00	[ICRA]A3+; Assigned
<b>Total</b>	<b>210.00</b>	

### Rating action

ICRA has assigned a long-term rating of [ICRA]BBB (pronounced ICRA triple B)<sup>1</sup> to the Rs. 45.0-crore<sup>2</sup> fund-based facility of Vishal Infrastructure Limited (VIL). ICRA has also assigned a short-term rating of [ICRA]A3+ (pronounced ICRA three plus) to the Rs. 165.0-crore non-fund-based facility of VIL. The outlook on the long-term rating is 'Stable'.

### Rationale

The assigned ratings derive strength from the long experience of the promoters in the construction business having executed various projects for reputed government agencies. The ratings also factor in the comfortable financial profile of the company with a gearing of 0.2 times as on March 31, 2017, and interest coverage and NCA/Debt of 3.2 times and 90.3%, respectively during FY2017. The company has a healthy unexecuted order-book position of Rs. 648.6 crore as on, February 28, 2018 (Order book/FY2017 operating income ratio of 2.1 times) providing revenue visibility in the near to medium term. The ratings also factor in the timely collection of receivables, and working capital requirements being supported by advances from customers.

The ratings are, however, constrained by the highly competitive business environment, characterized by the presence of large number of players along with a tender based contract awarding system, which keeps operating margins under check. The ratings also incorporate the company's exposure to volatility in raw material prices that could have an adverse impact on its profitability. The rating takes into account the execution risks as a significant portion of the order book is in the preliminary stages of execution. ICRA notes that the projects are exposed to delays on account of various social and political factors and the time involved in getting the required clearances and approvals. The rating is also constrained by the client concentration, as the company's current order book comprises of projects only from Defence Research and Development Organization (DRDO) and Airport Authority of India (AAI).

<sup>1</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

## Outlook: Stable

ICRA believes that VIL will continue to benefit from the extensive experience of its promoters and the healthy order-book position. The outlook may be revised to 'Positive' if the firm is able to demonstrate substantial growth in revenues and healthy profitability, resulting in strong cash accruals and strengthening of the overall financial risk profile. Conversely, the outlook may be revised to 'Negative' if any slowdown in order execution, or cost escalation results in lower-than-expected cash accruals; or if any major capital expenditure, or stretch in the working-capital cycle, weakens the liquidity.

## Key rating drivers

### Credit strengths

**Long experience of promoters in the construction business:** The management has long experience spanning over more than three decades across various segments like construction of dams, airport runways and terminals, reservoirs, bridges, refinery, and specialized and classified buildings. The client profile is reputed from whom it has been receiving repeat orders, which is a testament to the execution capabilities of VIL.

**Conservative capital structure with comfortable coverage indicators:** The company has comfortable financial profile as indicated by gearing of 0.2 times as on March 31, 2017, interest coverage of 3.2 times, Total debt/OPBITDA of 0.5 times in FY2017.

**Healthy order-book provides revenue visibility in the medium term:** VIL's closing order book as on February 28, 2018 stood at Rs.648.6 crore, which is 2.1 times the OI for FY2017 providing adequate revenue visibility for the medium term.

**Geographically well diversified unexecuted order book with projects across various states:** The current order book of VIL is well diversified with the states of Jharkhand, Karnataka, Rajasthan and Madhya Pradesh accounting for about 60% of the outstanding order book and Uttar Pradesh, Assam, and West Bengal accounting for 20%. The balance orders are in the states of Maharashtra, Kerala, among others. Geographically diversified order book reduces the exposure to regulatory risk pertaining to a particular region and the impact of regional economic cycles on the entity.

### Credit challenges

**Exposure to margin risks because of volatility in raw material prices:** For some of the orders VIL executes, there are no price escalation clauses or escalations are restricted to increase in Wholesale Price Index (WPI) which poses risk with respect to any unexpected fluctuations in prices of the key raw materials. The profitability levels of the company remain moderate with operating and net profitability of 8.0% and 3.1% respectively during FY2017.

**High utilisation of working capital borrowings** -With the continuous growth in scale and large pending order book, the firm's funding requirements are supported by the available cash credit limits, mobilization advance as well as creditor period from suppliers. The firm's cash credit and bank guarantee utilisation in the past one year was high with an average utilisation of 92% and 87% respectively.

**High client concentration risk:** The current works in hand for VIL are primarily from DRDO and AAI, resulting in risk of overdependence of revenues on two entities, although this risk is partly mitigated by the fact that both the entities are reputed and well-funded organizations and thus timely in payments to its vendors such as VIL.

**Order book has sizable projects in early stage of execution:** Around 60% of the current order book has achieved less than 30% financial progress, thereby exposing VIL to execution risks inherent to the nature of the construction industry.

**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:**

Incorporated in 1990, Vishal Infrastructure Limited (VIL) is a closely held private limit company based of Bangalore. The company executes advanced civil construction work for clients in a diverse range of industries such as airport sector, defense industry, PSU and other central government undertakings. The scope of work executed by VIL includes construction of dams, airport runways and terminals, reservoirs, bridges, refinery, and specialized and classified buildings. The clientele of the Company includes, Airport Authority of India (AAI), Central Public Works Department, Military Engineer Services (MES), Defense Research and Development Organization (DRDO), and Mumbai Metropolitan Region Development Authority (MMRDA). Few of the big projects that VIL has completed in the past include Runway at air force station in Halwara, Runways at Kolkata, Mangalore and Agatti Airport, Terminal building at Pune, Madurai and Cochin Airport, Pipe Rack project in Dibrugarh, Assam, Hangar project in Madurai and Pipe rack and structural project at Dulijan, Assam.

In FY2017, the company reported a net profit of Rs. 9.3 crore on an operating income of Rs. 304.6 crore as against a net profit of Rs. 5.2 crore on an operating income of Rs. 182.7 crore in FY2016.

**Key Financial Indicators (Audited)**

	<b>FY 2016</b>	<b>FY 2017</b>
Operating Income (Rs. crore)	182.7	304.6
PAT (Rs. crore)	5.2	9.3
OPBDIT/ OI (%)	8.6%	8.0%
RoCE (%)	21.3%	28.9%
Total Debt/ TNW (times)	0.2	0.2
Total Debt/ OPBDIT (times)	0.9	0.5
Interest coverage (times)	2.3	3.2
NWC/ OI (%)	24.9%	13.9%

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

**Any other information: None**

### Rating history for last three years:

		Current Rating (FY2019)			Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
1	Cash Credit	45.00	-	April 2018 [ICRA]BBB (Stable)	-	-	-
2	Bank Guarantee	165.00	-	[ICRA]A3+	-	-	-

### 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

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	-	-	-	45.00	[ICRA]BBB (Stable)
NA	Bank Guarantee	-	-	-	165.00	[ICRA]A3+

Source: VIL

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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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For more information, visit [www.icra.in](http://www.icra.in)

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