

GVPR Engineers Limited

July 16, 2018

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. Crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based – Cash Credit	247.00	260.00	[ICRA]A(Positive); reaffirmed; outlook revised from Stable
Non fund based – Bank Guarantee	815.00	827.00	[ICRA]A(Positive); reaffirmed; outlook revised from Stable
Non fund based – Letter of Credit	223.00	230.00	[ICRA]A1; reaffirmed
Non fund based – BG/Letter of Credit	407.00	421.00	[ICRA]A(Positive)/[ICRA]A1; reaffirmed; outlook revised from Stable
Unallocated Limits	208.00	162.00	[ICRA]A(Positive)/[ICRA]A1; reaffirmed; outlook revised from Stable
Total	1900.00	1900.00	

Rating action

ICRA has reaffirmed the long-term rating assigned to the Rs. 260.00 crore¹ fund based working capital facilities and Rs. 827.00 crore non fund based limits of GVPR Engineers Limited (GVPR / the company)² at [ICRA]A (pronounced ICRA A), and also reaffirmed the short term rating at [ICRA]A1 (pronounced ICRA A one) to the Rs. 230 crore non fund based limits of GVPR. ICRA has also reaffirmed the long-term/short-term ratings assigned to the Rs. 421.00 crore non fund based limits and Rs. 162 crore unallocated limits of GVPR at [ICRA]A/[ICRA]A1. The outlook on the long-term rating has been revised from 'Stable' to 'Positive'.

Rationale

The revision in outlook factors in GVPR's robust order book position of Rs. 8382 crore as on April 30, 2018 which is 4.31 times the company's operating income in FY2018 driven by healthy order accretion of nearly Rs. 5,849 crore over the past 12 months from irrigation and drinking water supply segments spread across Rajasthan, Madhya Pradesh and other states. During FY2018, the company witnessed a healthy growth in OI at 38% due to faster execution in Telangana electrical work orders and also across various drinking water projects in Telangana. ICRA expects GVPR's gross billing to witness significant jump during FY2019. The ratings also favourably take into account the strong financial flexibility of the company due to high unencumbered cash balance of ~Rs. 310 crore as on March 31, 2018 which has resulted in negative net debt and low average fund based limit utilisation of 27% over the past 12 months. The financial profile continues to remain healthy with net TOL³/TNW of 0.79 times, interest coverage of 3.4 times and TD/OPBDIT of 1.4 times in FY2018. ICRA derives comfort from the four decade long track record of the promoters in execution of civil contracts.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

³ Net TOL: Total outside liabilities adjusted for unencumbered cash balances

The ratings are, however, constrained by high execution related risks as nearly 70% of the order book as on April 30, 2018 is in nascent stages of execution (<20% financial progress) as the large work orders received during H2 FY2018 are yet to commence. Hence, timely receipt of initial approvals and payments would be key monitorables. Further, the ratings are also impacted by the high segment concentration risk with irrigation and drinking water pipeline projects accounting for nearly 70% of the order book as on June 2018, even after the receipt of a large road project worth Rs. 2000 crore in June 2018; high customer concentration risk with top-5 customers accounting for 79% of the order book as on April 30, 2018; and low operating profitability at 7.07% in FY2018 due to execution through leasing of equipment and relatively lower complexity of nature of works executed.

Going forward, the ability of the company to improve its operating profitability, secure design approvals for newly won projects in a timely manner and efficient management of working capital cycle would be the key credit rating sensitivities.

Outlook: Positive

The positive outlook reflects ICRA's expectation of GVPR's ability to commence execution of new work orders in a timely manner and thereby achieve significant increase in gross billing in FY2019. The outlook may be revised to 'Stable', if the billing is lower than anticipated or elongation in working capital cycle.

Key rating drivers

Credit strengths

Significant order inflows has improved the revenue visibility – GVPR had received multiple work orders pertaining to lift irrigation and drinking water pipeline projects over the past 12 months due to which its order book size has swelled from Rs. 4404 Crore as on March 31, 2018 to Rs. 8382 crore as on April 30, 2018. The size of the order book is ~4.3 times revenues in FY2018 which provides revenue visibility in the medium term.

Healthy growth in scale of operations – The company's revenues have grown by ~38% from Rs. 1414.0 crore in FY2017 to Rs. 1944.7 crore in FY2018 due to faster execution in Telangana electrical and drinking water projects as well as timely receipt of payments in these projects. The company's revenues are expected to grow by ~40-50% in FY2019 due to strong order inflows as well as the importance attached to these projects which would lead to timebound completion of projects.

Strong financial flexibility due to sizeable unencumbered cash and equivalents – The company's financial profile remained strong due to healthy accruals over the years resulting in substantial unencumbered cash balance of ~Rs. 310 crore as on March 31, 2018. This has also resulted in negative net debt as on March 31, 2018 and low average fund based limit utilisation of 27% over the past 12 months.

Reduced geographic concentration risk; expected to further reduce in FY2019 – With receipt of new work orders across Rajasthan and Madhya Pradesh, the geographic concentration risk has reduced as top-3 states account for 68% of the order book as on April 30, 2018 as compared to December 31, 2016 when Telangana alone accounted for 650% of the order book. The company's order book has further diversified as on June 30, 2018, geographically and segment wise, as the company has received a large EPC road contract worth ~Rs. 2000 crore for construction of Nagpur-Mumbai Expressway.

Credit weaknesses

High execution related risks – Around 70% of the order book is in the initial stages of execution (<20% financial progress) as the large work orders received in FY18 have been recently commenced. There are 11 projects where the first bill is yet

to be raised as on April 2018. Out of these 11 projects, Letter of Intent was received in May 2018 for three projects and for another 6 projects, the work orders were awarded during Feb-Mar'18. The billing in the other two projects were impacted due to political reasons in Karnataka. However, the company is expected to submit the designs during July 2018 and the first bills in most of these new projects would be realised during Jul-Aug 2018.

High segment and project concentration risk – Although the segment concentration risk is expected to reduce to some extent in the near future, the company's operations remain largely focused on executing drinking water and irrigation pipeline project as reflected from over 80% of revenue receipts from this segment over the past three years and order book composition. Further, the company also has high project concentration risk with single project accounting for 26% of the order book and top-5 projects accounting for 55% of the order book making the company's revenues vulnerable to any delays in these projects.

Low operating profitability – Historically, the operating margins of the company have been ~7.5-8.5% over the past 8 years. However, the operating profitability declined to 5.73% in FY2017 due to higher employee expenditure. This had returned to 7.1% in FY2018 due to better absorption of overheads. Nevertheless, the profitability is on the lower side as the company resorts to leasing of equipment and machinery for its execution besides lower complexity in the nature of works.

Full utilisation of non-fund-based facilities limits the company's further participation in new work orders – Given that the company's non-fund-based limits are fully utilised as on June 2018, there is no cushion available for further participation in new tenders. The utilisation levels have increased steeply over the past 3 months due to receipt of large work orders which need higher performance bank guarantees. However, the company is currently able to meet the same through its substantial cash reserves available. Further order book accretion is contingent on the ability of the company to timely secure additional non-fund-based limits.

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](#)

[Framework for Liquidity Analysis in Corporate Ratings](#)

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

	FY 2017	FY 2018 (Prov.)
Operating Income (Rs. crore)	1414.0	1944.7
PAT (Rs. crore)	37.8	77.7
OPBDIT/ OI (%)	5.7%	7.1%
RoCE (%)	19.1%	24.3%
Total Debt/ TNW (times)	0.3	0.5
Total Debt/ OPBDIT (times)	1.4	1.9
Interest coverage (times)	2.3	3.4

Source: GVPR Engineers Limited

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 in FY2019	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016	
				Jul 2018	Aug 2017	Jul 2016	Jun 2015	
1 Cash Credit	Long Term	260.00	260.00	[ICRA]A (Positive)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)	
2 Bank Guarantee	Long Term	827.00	827.00	[ICRA]A (Positive)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A - (Stable)	
3 Letter of Credit	Short Term	230.00	230.00	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A2+	
4 BG/LC	Long Term/ Short Term	421.00	421.00	[ICRA]A (Positive)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A- (Stable)/ [ICRA]A2+	
5 Unallocated Limits	Long Term/ Short Term	162.00	162.00	[ICRA]A (Positive)/ [ICRA]A1	[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

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	-	-	-	260.00	[ICRA]A (Positive)
NA	Bank Guarantee	-	-	-	827.00	[ICRA]A (Positive)
NA	Letter of Credit	-	-	-	230.00	[ICRA]A1
NA	BG/LC	-	-	-	421.00	[ICRA]A (Positive)/ [ICRA]A1
NA	Unallocated Limits	-	-	-	162.00	[ICRA]A (Positive)/ [ICRA]A1

Source: GVPR

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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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