

October 30, 2020

Gvs Projects Private Limited: Rating upgraded

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based/CC	4.50	5.75	[ICRA]BBB- (Stable); upgraded from [ICRA]BB+ (Stable)
Long-term – Non-fund based/BG	70.00	73.75	
Long-term – Unallocated	5.50	0.50	
Total	80.00	80.00	

*Instrument details are provided in Annexure-1

Rationale

The rating upgrade takes into account the steady operational and financial performance of Gvs Projects Private Limited (Gvs) with an operating income (OI) of more than Rs. 170 crore in FY2019 and FY2020 owing to improved order addition and execution. Further, its financial risk profile remains comfortable, characterised by a gearing of 0.35 times as on March 31, 2020, interest coverage of 6.08 times and NCA/TD% of 63% in FY2020. Gvs faces low counterparty credit risk with client base consisting mainly of government agencies such as Eastern Power Distribution Company of Andhra Pradesh Limited (APEPDCL), Southern Power Distribution Company of Andhra Pradesh Limited (APSPDCL), etc. The rating factors in its established track record as an electrical contractor and low working capital intensity of the business at -2% in FY2020 owing to timely receipt of payments as the projects are funded by multi-lateral funding agencies.

The rating is, however, constrained by the high geographical concentration risk with 100% of the outstanding order book and entire revenues derived from Andhra Pradesh. The company has moderate order book position of Rs. 259.16 crore as on September 30, 2020 providing near-term revenue visibility and its ability to secure new orders remains a key rating monitorable. Further, the operating profit margins remained moderate at 7.61% in FY2020 owing to limited value addition in electrification works. The rating is further constrained by the vulnerability of its profitability to volatility in raw material prices, mainly steel and copper as the contracts are fixed price in nature.

The Stable outlook on [ICRA]BBB- rating reflects ICRA's opinion that the company would maintain a healthy financial risk profile, characterised by low gearing and healthy debt coverage indicators, given the low reliance on external borrowings and the healthy cash accruals.

Key rating drivers and their description

Credit strengths

Significant experience of promoters as electrical contractors – The promoters have more than 15 years of experience in undertaking electrical contracts, which resulted in repeat orders. Further, the company holds 33-KV class-I electrical licence and executes supply, installation, testing and commissioning of high-voltage indoor and outdoor substations, overhead lines, power distribution systems and all other electrical-related works.

Comfortable financial risk profile – The company's financial risk profile is comfortable with a gearing of 0.35 times and TOL/TNW at 1.81 times as on March 31, 2020 owing to low debt levels, and interest coverage of 6.08 times in FY2020. The total debt as on March 31, 2020 stood low at Rs. 13.05 crore and mainly comprised working capital borrowings.

Low counterparty risk owing to reputed client base – The company’s client portfolio mainly consists of government agencies such as APEPDCL and APSPDCL, which reduces the counterparty credit risk. The payments are received within 30 - 60 days after the certification of bills as all the projects undertaken by Gvs have funding from multi-lateral agencies and the payments are released in a timely manner, which supported its liquidity position.

Credit challenges

Limited revenue visibility – The order book remained moderate at Rs. 259.16 crore as on September 30, 2020, which provides near-term revenue visibility as most of the orders have an execution period of 12-18 months. The company had bid for many tenders and the ability to secure new orders to support the future growth would be a key rating monitorable.

High geographical concentration risk – The company’s revenue profile is highly concentrated in Andhra Pradesh accounting for 100% of the total revenues during the past three years. Further, 100% of the outstanding order book is limited to Andhra Pradesh, resulting in high geographical concentration risk.

High customer concentration risk – The company derived more than 90% of its revenues during the past three years from APSPDCL and APEPDCL resulting in high customer concentration risk. However, satisfactory execution track record with the customers mitigates the customer concentration risk to an extent.

Moderate operating margins – The value addition in electrification works is low since the designs are provided by the respective clients. Further, the industry is highly fragmented with presence of a large number of electrical contractors. The business is mainly labour intensive and the mobilisation of semi-skilled electrical workers remains the key, which acts as a likely constraint in scaling up. The volatility in key raw material prices (mainly copper and steel) affects the company’s profitability as most of the orders include fixed-priced contracts. However, the short duration of the execution cycle mitigates the risk to extent.

Liquidity position: Adequate

The company’s liquidity position is **adequate** as depicted by sufficient cushion available in its working capital limits with an average working capital limit utilisation of 71% of the sanctioned limits during the past 15-months period ending in September 2020. Further, it has low repayment obligation of Rs. 0.27 crore in FY2021 and capex of Rs. 2 crore, while the cash flows are expected to be sufficient for funding these requirements.

Rating sensitivities

Positive triggers – The rating could be upgraded if the company’s scale of operations and profitability margins improve on a sustained basis along improvement in its geographical diversification.

Negative triggers – Pressure on the rating may arise if the company’s scale of operations declines or a delay in payments from customers adversely impacts its financial performance and liquidity position. Specific credit metrics that could lead to a rating downgrade includes interest coverage of less than 3 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Construction Entities
Parent/Group Support	Not applicable
Consolidation/Standalone	The rating is based on the company’s standalone financials.

About the company

Incorporated in 2003, by Mr. G. Balaji, Mrs. G. Rathnam, Mr. Yugundher and Mr. R. Sumanth, Gvs Projects Private Limited (Gvs) is a class-I electrical and civil contractor in Andhra Pradesh executing projects involving HT and LT substations, transmission lines, external and internal electrification and underground cabling works for government and private clients. The company undertakes civil construction works for substations, electrical control buildings and other minor civil construction projects.

Key financial indicators

	FY2019	FY2020*
Operating Income (Rs. crore)	175.42	170.76
PAT (Rs. crore)	7.17	7.73
OPBDIT/OI (%)	6.48%	7.61%
PAT/OI (%)	4.09%	4.53%
Total Outside Liabilities/Tangible Net Worth (times)	2.28	1.81
Total Debt/OPBDIT (times)	0.47	1.00
Interest Coverage (times)	8.10	6.08

Source: Gvs Projects Private Limited; *provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Current Rating (FY2021)					Rating History for the Past 3 Years		
Instrument	Type	Amount	Amount	Date & Rating	Rating in FY2020	Date & Rating in FY2020	Date & Rating in FY2018
		(Rs. crore)	Outstanding (Rs. crore)				
1	Cash Credit	Long-term	5.75	-	[ICRA]BBB- (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB (Stable)
							ISSUER NOT COOPERATING
2	Bank Guarantee	Long-term	73.75	-	[ICRA]BBB- (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB (Stable)
							ISSUER NOT COOPERATING
3	Unallocated	Long-term	0.50	-	[ICRA]BBB- (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB (Stable)
							ISSUER NOT COOPERATING

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	5.75	[ICRA]BBB- (Stable)
NA	Bank Guarantee	NA	NA	NA	73.75	[ICRA]BBB- (Stable)
NA	Unallocated	NA	NA	NA	0.50	[ICRA]BBB- (Stable)

Source: Gvs Projects Private Limited

Analyst Contacts

K Ravichandran

+91 4445964301

ravichandran@icraindia.com

R Srinivasan

+91 44 4596 4315

r.srinivasan@icraindia.com

Vinay Kumar G

+91 40 4067 6533

vinay.g@icraindia.com

Preeti Rana

+91 40 4067 6535

preeti.rana@icraindia.com

Relationship Contact

Jayanta Chatterjee

+91 80 4332 6401

jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 2556 0194/ 6606 9999

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