November 04, 2022

GVS Projects Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. Crore)	Current Rated Amount (Rs. Crore)	Rating Action
Long Term- Fund based limits- Cash credit	10.75	5.75	[ICRA]BBB- (Stable); Reaffirmed
Long Term- Non Fund based limits	68.75	73.75	[ICRA]BBB- (Stable); Reaffirmed
Long term- Unallocated	0.50	0.50	[ICRA]BBB- (Stable); Reaffirmed
Total	**80.00**	**80.00**	

**Instrument details are provided in Annexure I*

Rationale

The reaffirmation of the rating of GVS Projects Private Limited (GVS) factors in its healthy order book position of Rs. 637.3 crore as on October 20, 2022, providing medium-term revenue visibility, comfortable financial risk profile with TOL/TNW of 0.7 times as on March 31, 2022, and interest coverage of 4.4 times for FY2022. ICRA notes that the company's counterparties/clientele largely consists of electricity distribution companies (DISCOM) based out of Andhra Pradesh; however, despite its high exposure to state DISCOMs, the payments are timely as the projects undertaken by GVS are funded by multi-lateral funding agencies. The rating also favourably factors in the established track record of the entity as an electrical contractor.

The rating is, however, constrained by the modest scale of operations, high geographical and customer concentration risks as the entire order book is limited to Andhra Pradesh. The company's revenues declined by 13% in FY2022 to Rs. 107.5 crore, owing to the adverse impact of the pandemic on its execution as its work largely involves mobilisation of skilled manpower for project execution. The company has achieved billings of Rs. 95.9 crore in H1 FY2023 and expects to cross the pre-Covid revenues in FY2023, on the back of healthy order book and improved execution. The operating profits were moderate at 7.7% in FY2022 owing to the limited value addition in electrification works, which is expected to continue in the near term. Given the expected ramp-up in operations due to the healthy order book, the company's ability to manage its working capital cycle judiciously remains crucial to sustain its liquidity position and the overall credit profile, going forward.

The Stable outlook on the long-term rating reflects ICRA's opinion that the revenues are expected to improve on the back of a healthy order book position and timely receipt of payments from its key customers.

Key rating drivers and their description

Credit strengths

Significant experience of promoters as electrical contractors – The promoters have over 15 years of experience in undertaking electrical contracts. 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 other electrical-related works.

Healthy order book position – The order book position is healthy at Rs. 637.3 crore as on October 20, 2022, which improved from Rs. 332.0 crore as of November 30, 2021. Given majority of the projects is to be executed in 18-24 months, the order book provides medium-term revenue visibility.

Comfortable financial risk profile – The company's financial risk profile is comfortable, with a gearing of 0.2 times and TOL/TNW at 0.7 times as on March 31, 2022, owing to low debt levels. The total debt as on March 31, 2022, stood low at Rs. 8.7 crore. Further, interest coverage was healthy at 4.4 times in FY2022 and is expected to remain above 4.0 times owing to low interest expenses.

Low working capital intensity of the business owing to timely receipt of payments, as GVS largely undertakes projects funded by multi-lateral agencies – The company's client portfolio mainly consists of discoms such as the Andhra Pradesh Eastern Power Distribution Company Limited and the Andhra Pradesh Southern Power Distribution Company Limited. Despite high exposure to state DISCOMs, the working capital intensity is low as the payments are received within 30 - 60 days after the certification of bills, as all the projects undertaken have funding from multi-lateral agencies. Given the expected ramp-up in operations in the backdrop of healthy order-book, the company's ability to manage its working capital cycle judiciously remains crucial to sustain its liquidity position and overall credit profile, going forward.

Credit challenges

Modest scale of operations – The scale of operations had declined over the years to Rs. 123.7 crore in FY2021 and Rs. 107.5 crore in FY2022 from Rs. 173.2 crore in FY2020, owing to the adverse impact of the pandemic on its execution, as its work largely involves mobilisation of skilled manpower for project execution. The company has achieved billings of Rs. 95.9 crore in H1 FY2023 and expects to cross the pre-Covid revenues in FY2023, on the back of healthy order book and improved execution.

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 and the geographical concentration risk is expected to remain high in the medium term.

High customer concentration risk – The company derived more than 90% of its revenues during the past three years from its top-two clients, resulting in high customer concentration risk. However, a 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 as the designs are provided by the respective clients. 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 an extent.

Liquidity position: Adequate

The company's liquidity position is adequate, depicted by cushion available in its working capital limits with an average working capital limit utilisation of 59.8% of the sanctioned limits during the 12-month period ending in September 2022. Further, it has repayment obligation of Rs. 0.88 crore in FY2023, while the cash flows are expected to be enough for servicing the obligations. Low capex plans and timely receipt of payments from its key customers are expected to support its liquidity position.

Rating sensitivities

Positive factors – The rating could be upgraded, if there is any improvement in the company's scale of operations and profitability margins, along with business diversification and maintaining liquidity profile, on a sustained basis.

Negative factors – 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. A specific credit metric for a downgrade is if interest coverage is less than 3.0 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	Standalone

About the company

GVS Projects Private Limited (GVS) was incorporated in 2003 by Mr. G. Balaji, Mrs. G. Rathnam, Mr. Yugundher and Mr. R. Sumanth. 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

Standalone	FY2021	FY2022
	Audited	Audited
Operating income (Rs. crore)	123.7	107.5
PAT (Rs. crore)	4.5	5.2
OPBDIT/OI (%)	6.3%	7.7%
PAT/OI (%)	3.7%	4.8%
Total outside liabilities/Tangible net worth (times)	0.9	0.7
Total debt/OPBDIT (times)	4.2	4.7
Interest coverage (times)	3.8	4.4

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Source: Company

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on March 31, 2022 (Rs. Crore)	Date & Rating	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	
					Nov 04, 2022	Dec 30, 2021	Oct 30, 2020	July 02, 2019	May 31, 2019
1	Cash credit	Long-term	5.75	-	[ICRA]BBB-; (Stable)	[ICRA]BBB-; (Stable)	[ICRA]BBB-; (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB (Stable) ISSUER NOT COOPERATING
2	Bank Guarantee	Long-term	73.75	-	[ICRA]BBB-; (Stable)	[ICRA]BBB-; (Stable)	[ICRA]BBB-; (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB (Stable) ISSUER NOT COOPERATING
2	Unallocated	Long-term	0.50	-	[ICRA]BBB-; (Stable)	[ICRA]BBB-; (Stable)	[ICRA]BBB-; (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB (Stable) ISSUER NOT COOPERATING

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash credit	Simple
Bank Guarantee	Very Simple
Unallocated	Not Applicable

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	5.75	[ICRA]BBB-; (Stable)
NA	Bank Guarantee	NA	NA	NA	73.75	[ICRA]BBB-; (Stable)
NA	Unallocated limits	NA	NA	NA	0.50	[ICRA]BBB-; (Stable)

Source: Company;

Annexure II: List of entities considered for consolidated analysis- Not Applicable

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