

March 07, 2023

## BVSR Constructions Private Limited: Rating downgraded to [ICRA] BBB+ (Stable)

### Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating Action
Long-term – Fund-based – Cash credit	10.0	10.0	[ICRA] BBB+ (Stable); downgraded from [ICRA] A-(Stable)
Long-term – Non-fund based	220.0	220.0	[ICRA] BBB+ (Stable); downgraded from [ICRA] A-(Stable)
Long-term – Unallocated limits	84.0	84.0	[ICRA] BBB+ (Stable); downgraded from [ICRA] A-(Stable)
<b>Total</b>	<b>314.0</b>	<b>314.0</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The rating downgrade of BVSR Constructions Private Limited (BVSR) factors in the sustained reduction in its scale of operations over the past three years with revenues declining to Rs. 214.8 crore in FY2022 from Rs. 934.6 crore in FY2020 on account of slow execution and low order book addition. Although the order book remained healthy at Rs. 1,740 crore as on December 31, 2022, its operating income (OI) is expected to remain modest at less than Rs. 300 crore in FY2023 due to slow project execution with orders largely from state government departments. The rating remains constrained by the moderate execution risk as ~59% of the order book is in the nascent stages and yet to commence the first billing as on December 31, 2022. Any delay in receipt of the requisite approvals could adversely impact its revenues and profitability as witnessed over the past three years, and remains a key monitorable. ICRA also notes the high segmental concentration with irrigation and road segments contributing to 60% and 40% of the order book, respectively. It faces high geographical concentration with the entire order book confined to Telangana and Andhra Pradesh.

BVSR has an operational build operate transfer – hybrid annuity model (BOT - HAM) project, under GV Road Projects Private Limited (GVR, rated [ICRA]A (Stable)), from the National Highways Authority of India (NHAI, rated [ICRA]AAA (Stable)), which received the first four semi-annuities, in a timely manner, as of January 2023. Although the company has provided a corporate guarantee for GVR's debt, it is not consolidated with BVSR as the crystallisation of the corporate guarantee is remote, given the latter's comfortable credit profile. BVSR has provided corporate guarantees to two operational BOT annuity projects from Madhya Pradesh Road Development Corporation Limited, BVSR Harda Betul Road Projects Private Limited and BVSR SSG Road Projects Private Limited, with an operational track record of ten years. It has also provided corporate guarantee to the working capital facilities of Nanda Chemicals Private Limited (NCPL, rated [ICRA]BBB-(Stable)), which manufactures di calcium phosphate (DCP) and sulfuric acid. Given this, ICRA has consolidated NCPL, BVSR Harda Betul Road Projects Private Limited and BVSR SSG Road Projects Private Limited for its rating assessment. Further, BVSR has 75% of its net worth invested in group companies. Therefore, any incremental investment towards the Group companies or addition BOT projects, which could materially impact its liquidity position remains a key rating monitorable.

The rating, however, factors in BVSR's above average financial profile as reflected by low leverage with TOL/TNW of 0.6 times as on December 31, 2022 and interest coverage of 4.8 times in FY2022. BVSR's liquidity position remains adequate on account of cushion in fund-based limits and unencumbered cash balances of Rs. 15.6 crore as on December 31, 2022. ICRA notes that company does not have any major investment plans towards BOT/HAM or subsidiaries, which along with moderate cash conversion cycle should help in maintaining adequate liquidity. The rating factors in its strong operational track record with a demonstrated ability in executing road construction and irrigation projects over the past fifteen years. Any stretch in working capital cycle or deferment in project execution could have a bearing on the company's liquidity position, and remains a key monitorable.

The Stable outlook reflects ICRA's belief that the company would continue to benefit from low leverage levels and adequate liquidity position.

## Key rating drivers and their description

### Credit strengths

**Established operational track record** - BVSR has an established track record of more than fifteen years in executing road construction and irrigation projects in Andhra Pradesh and Telangana.

**Low leverage and satisfactory debt coverage indicators** - The financial profile remains comfortable, as reflected by low leverage with TOL/TNW of 0.6 times as on December 31, 2022 and satisfactory coverage indicators with interest coverage of 5.2 times in FY2023. Further, BVSR's liquidity position remains adequate with cushion in fund-based working capital limits and free cash balance of Rs. 15.6 crore as on December 31, 2022.

### Credit challenges

**Weak order book profile** - Although BVSR's order book remained healthy at Rs. 1,740 crore as on December 31, 2022, ~59% of the order book remained in the nascent stages and were yet to commence the first billing. Any delay in receipt of the requisite approvals could adversely impact the revenues and profitability as witnessed during the past three years. BVSR remains exposed to segmental concentration risk with irrigation and road segments contributing to 53% and 46% of the order book, respectively. Further, the order book is highly concentrated on Telangana and Andhra Pradesh. Also, the order book is largely from state government departments exposing the billings to funding availability with these departments.

**Decline in scale of operations for the past two years** - The company's scale of operations declined sharply to Rs. 214.8 crore in FY2022 from Rs. 934.6 crore in FY2020 owing to slow order execution and addition. However, it achieved revenues of Rs. 76.9 crore in 9M FY2023 and expects to achieve revenues of more than Rs. 260 crore in FY2023, driven by its healthy order book position.

**Sizeable investments in Group companies** - BVSR has invested Rs. 185.8 crore to promoter group companies as on December 31, 2022. The total investments stand at 75% of its net worth, which has constrained its financial flexibility. Further, any significant incremental support towards the Group companies, or addition of BOT projects impacting its liquidity position, will remain a key rating monitorable.

### Liquidity position: Adequate

The company's liquidity position is adequate with unencumbered cash balance of around Rs. 15.6 crore and cushion in fund-based limits as on December 31, 2022. The operational cash flows for its BOT projects would be sufficient to meet the debt obligations and maintenance costs of the respective special purpose vehicles (SPVs). Further, BVSR is expected to provide support of Rs. 8.0 crore to NCPL in FY2023 towards its working capital requirements. The cash flow from operations, along with its existing cash balances are sufficient for the same. BVSR's liquidity position is also supported by low capex and repayments in the near term.

### Rating sensitivities

**Positive factors** - The rating maybe upgraded upon sustained and significant increase in billing along with improvement in order book profile and profitability margins while maintaining its favourable cash conversion cycle and improving liquidity position.

**Negative factors** - Pressure on BVSR's rating could arise if the company is unable to improve the order execution/addition or if there is a significant increase in exposure to development (BOT) projects adversely impacting the liquidity position. Specific credit metrics that would lead to downgrade will include TOL/TNW increasing beyond 1.4 times on a sustained basis.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology - Construction</a> <a href="#">Rating Approach - Consolidation</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the rating, ICRA has consolidated the financials of BVSR and its subsidiaries – BVSR SSG Road Projects Pvt Ltd and BVSR Harda Betul Road Projects Pvt Ltd on account of the corporate guarantee provided by BVSR for their borrowings. Further, BVSR has provided corporate guarantee to NCPL, which is fully held by its promoters and has been consolidated for ICRA's assessment.

## About the company

Incorporated in 2001 as a partnership firm by the Late B.V. Subba Reddy and later converted into a private limited company in 2004, BVSR Constructions Private Limited (BVSR) is primarily involved in road construction and irrigation works. It is an ISO 9001-2008 certified construction company, with presence largely confined to Andhra Pradesh and Telangana across roads, bridges and irrigation segments. It has a portfolio of two state road BOT annuity projects and one NHAI HAM project.

BVSR SSG is an SPV promoted by BCPL, KCM Infratech Pvt Ltd, NSPR Constructions Pvt Ltd and Mr. Srinivasul Reddy. The company completed the project in March 2014, and now operates and maintains the roads. MPRDCL awarded the BOT project to BVSR SSG on annuity basis. The project concession period ends in March 2027. It has designed and rehabilitated the 29.6-km Sausar-Mohgaon-Mordongri Road, 22.3-km Sonapipari-Umreth-Monari-Umba Road and 32.1-km Gadawara-Tendukheda Road in Madhya Pradesh.

BVSR Harda is an SPV promoted by BCPL, KCM Infratech Pvt Ltd and NSPR Constructions Pvt Ltd. MPRDCL awarded the BOT project to BVSR Harda on an annuity basis, the project concession period ends in March 2027. It has designed and rehabilitated the 29.3-kilometre (km) Harda-Chippaner Road and the 34.5-km Betul-Atner Road in Madhya Pradesh. The company completed the project in March 2014, and operates and maintains the roads.

Nanda Chemicals Private Limited (NCPL) was incorporated on October 14, 2019 by Mr. Srinivasul Reddy Battalapally, promoter of BVSR Constructions Private Limited. The company is engaged in production of DCP, sulfuric acid, hydrated lime, probiotics and gypsum.

## Key financial indicators (audited)

BVSR Consolidated	FY2021	FY2022
Operating income	470.8	295.9
PAT	44.2	7.8
OPBDIT/OI	17.5%	15%
PAT/OI	9.4%	2.6%
Total outside liabilities/Tangible net worth (times)	1.0	1.0
Total debt/OPBDIT (times)	1.1	2.7
Interest coverage (times)	6.9	1.9

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

BVSR Standalone	FY2021	FY2022
Operating income	422.8	214.8
PAT	34.3	12.0
OPBDIT/OI	10.7%	8.7%
PAT/OI	8.1%	5.6%
Total outside liabilities/Tangible net worth (times)	0.9	0.7
Total debt/OPBDIT (times)	0.3	0.4
Interest coverage (times)	14.9	4.5

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

### Rating history for past three years

Instrument	Type	Current rating (FY2023)				Chronology of rating history for the past 3 years		
		Amount rated (Rs. crore)	Amount outstanding as on Dec 31, 2022 (Rs. crore)	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
				Mar 07, 2023	May 13, 2022			
1 Fund-based – Cash credit	Long term	10.0	-	[ICRA] BBB+ (Stable)	[ICRA] A- (Stable)	-	[ICRA] A- (Positive)	[ICRA] A- (Positive)
2 Non-fund based	Long term	220.0	-	[ICRA] BBB+ (Stable)	ICRA] A- (Stable)	-	[ICRA] A- (Positive)	[ICRA] A- (Positive)
3 Unallocated limits	Long term	84.0	-	[ICRA] BBB+ (Stable)	ICRA] A- (Stable)	-	[ICRA] A- (Positive)	[ICRA] A- (Positive)

### Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash credit	Simple
Non-fund based	Very Simple
Unallocated limits	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	Fund-based – Cash credit	NA	NA	NA	10.0	[ICRA] BBB+ (Stable)
NA	Non-fund based	NA	NA	NA	220.0	[ICRA] BBB+ (Stable)
NA	Unallocated limits	NA	NA	NA	84.0	[ICRA] BBB+ (Stable)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

**Annexure II: List of entities considered for consolidated analysis**

Instrument	BVSR ownership	Consolidation Approach
BVSR Harda Betul Road Projects Private Limited	51.16%	Full consolidation
BVSR SSG Road Projects Private Limited	54.18%	Full consolidation
Nanda Chemicals Private Limited	-	Full consolidation

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