

September 06, 2022

GVPR Engineers Limited: Long-term rating upgraded; short-term rating reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term-fund Based CC	246.60	350.00	[ICRA]A+(Stable); Upgraded from [ICRA]A (Positive)
Long Term-Non-Fund Based	1772.40	3130.00	[ICRA]A+(Stable); Upgraded from [ICRA]A (Positive)
Short Term- Non-Fund Based	310.00	420.00	[ICRA]A1 Reaffirmed
Long term/Short term - Unallocated	771.00	0.0	-
Total	3100.00	3900.0	

*Instrument details are provided in Annexure-1

Rationale

The long-term rating upgrade favourably factors in GVPR Engineers Limited's (the company/GVPR) increased scale of operations and consequent operating leverage benefits and improvement in operating profitability, which is expected to sustain over the medium term. GVPR's revenues grew by 34% to Rs. 1,932.6 crore in FY2022, and it is expected to register a strong growth in revenues in the medium term, driven by a healthy order book of Rs. 1,3370.3 crore (6.9 times of FY2022 OI) as on June 30, 2022. Further, the ratings factor in the improvement in GVPR's order book profile, with the share of Central Government and multi-lateral agencies-funded projects increased to 53% of the order book, which is expected to result in a comfortable cash conversion cycle. The ratings also consider the improvement in the operating margins to 11.8% in FY2022 from 10.1% in FY2019, owing to improved scale of operations and reduced dependence on sub-contractors. The company's liquidity profile is strong, with unencumbered cash balances of Rs. 721.5 crore and negative net-debt position as on March 31, 2022. The ratings derive comfort from GVPR's established track record of over four decades in the execution of irrigation and drinking water projects, and a geographically diversified order book with presence across nine states.

The ratings are, however, constrained by the high segment concentration risk, with the irrigation and drinking water segments contributing to 71% of the total revenues in FY2022 and around 72% of the order book as on June 30, 2022. While the TOL/TNW remains high at 1.7 times, ICRA notes that this is on account of the operation and maintenance (O&M) reserves¹ of Rs. 565 crore as on March 31, 2022. However, any material increase in actual O&M expenditure vis-à-vis O&M income and reserves, will remain a key rating monitorable. Adjusting for these, the net TOL/TNW stood at 1.0 times as on March 31, 2022. The ratings are also constrained by the moderate interest coverage with PBDIT/interest at 3.5 times for FY2022 owing to high interest expenses. ICRA also notes the moderate investment plans of ~Rs. 100.0 crore in the Group entities constraining the company's free cash flows to some extent.

The Stable outlook reflects ICRA's opinion that GVPR will be able to maintain its profitability margins and liquidity position, and report sustained revenue growth on the back of a strong order book position.

¹ Given the long operations and maintenance (O&M) period for some of the water projects (ranging between 5-10 years), the company creates O&M reserves towards future O&M expenditure during the defect liability and operations period

Key rating drivers and their description

Credit strengths

Healthy revenue growth and order book position – GVPR revenues increased by ~34% to Rs. 1,932.6 crore in FY2022, and the growth is expected to continue in the medium term on the back of a healthy order book position of Rs. 1,3370.3 crore as on June 30, 2022, which translates into 6.9 times of FY2022 revenues.

Geographically diversified order book - The order book is geographically diversified with orders spread across nine states, primarily in Uttar Pradesh, Maharashtra, and Rajasthan, which together account for 75% of the order book. Further, due to significant focus on irrigation and drinking water across many states in the country, the company has secured multiple drinking water and irrigation projects across states.

Healthy operating margins and strong liquidity position – The operating margins improved to 11.8% in FY2022 from 10.1% in FY2019 owing to increased scale of operations and consequent operating leverage benefits and reduced dependence on sub-contractors. Further, the liquidity position is strong, with unencumbered cash balance of Rs. 721.5 crore and negative net-debt position as on March 31, 2022. The share of projects from state government agencies decreased to 47% of the order book as on March 31, 2022, from 83% as on March 31, 2020, driven by water supply projects received in Uttar Pradesh under the Jal Jeevan Mission scheme of the Central Government. The payment cycle is expected to be timely, which would support order execution and GVPR's working capital requirements.

Credit challenges

High TOL/TNW owing to sizeable O&M reserves – The TOL/TNW remained high at 1.7 times as on March 31, 2022 on account of the sizeable O&M reserves of Rs. 565 crore towards warranty/O&M requirements of the projects for which the company also maintains commensurate liquidity. Adjusting for these, the net TOL/TNW stood at 1.0 times as on March 31, 2022. Further, ICRA is given to understand that adequate cushion is built-up as reserves to meet the costs during the O&M period (defect liability period). However, any material increase in actual O&M expenditure vis-à-vis O&M income and reserves, will remain a key rating monitorable.

High segmental concentration – The company derives majority share of its revenues from the irrigation and drinking water segments, which together accounted for 71% of the total revenues in FY2022. Further, the irrigation, and water supply segments accounted for around 72% of the pending order book as of June 30, 2022, and the revenue concentration on these is expected to continue in the medium term.

Moderate coverage metrics – The company's coverage indicators are moderate with interest coverage (including non-operating income) of 3.5 times as on March 31, 2022, owing to high interest costs. The company maintains sizeable liquidity on a consistent basis, which results in stable interest income. Given the expected improvement in the operating margins, the company's debt coverage indicators are expected to improve over the medium term in the absence of any debt-funded capital expenditure.

Liquidity position: Strong

GVPR's liquidity position is strong, with unencumbered cash balance of Rs. 721.5 crore as on March 31, 2022. The company has debt repayment of Rs. 8.26 crore, moderate capex plans of Rs. 30-40 crore and Group investment plans of Rs. 50 crore in FY2023, which can be comfortably met through cash flows from operations. Further, a moderate cushion available in the working capital limits and timely receipt of payments from its key customers are expected to support the liquidity profile, going forward.

Rating sensitivities

Positive factors – ICRA may upgrade the ratings, if the company significantly increases its revenues while improving its business diversification, profitability margins and maintaining liquidity position. A specific credit metric for an upgrade is if PBDIT/interest expense is higher than 7 times, on a sustained basis.

Negative factors – Pressure on GVPR’s ratings may arise, if any decline in billing or elongation of the working capital cycle depletes the company’s liquidity reserve. A specific credit metric for a downgrade is if net TOL/TNW increases beyond 1.5 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 ratings are based on the company’s standalone financial statements

About the company

GVPR Engineers Limited was incorporated in 1997 by Mr. G. S. P. Veera Reddy, who is the promoter of the company. The key management of the company includes Mr. G. Shiva Shankar Reddy (Chairman), Mr. G. Veera Sekhar Reddy (Managing Director) and supported by professionals from the engineering, accounts, finance, and project monitoring teams. The company is focused on the execution of engineering, procurement, and construction (EPC) contracts, especially in essential services such as water resource management, electric power, lift irrigation, STP, road, drinking water and sanitation. At present, GVPR’s operations are spread across nine states with 30 project locations, which are broadly divided into three segments viz. water supply and irrigation projects, road works, EPC of transmission and distribution lines and substations.

Key financial indicators

	FY2021	FY2022
Operating income	1448.5	1967.6
PAT	89.6	138.1
OPBDIT/OI (%)	11.0%	11.8%
PAT/OI (%)	6.2%	7.0%
Total outside liabilities/Tangible net worth (times)	2.1	1.7
Total debt/OPBDIT (times)	1.6	1.4
Interest coverage (times)	2.0	2.9
PBDIT/Interest (times)	2.7	3.5

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

Source: Company Data; Annual report

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 of Aug 31, 2022 (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	
					Sep 06, 2022	Sep 24, 2021	Aug 07, 2020	July 15, 2019	
1	Cash Credit	Long-term	350.0	NA	[ICRA]A+ (Stable)	[ICRA]A (Positive)	[ICRA]A (Stable)	[ICRA]A (Stable)	
2	Bank Guarantee	Long- Term	3130.0	NA	[ICRA]A+ (Stable)	[ICRA]A (Positive)	[ICRA]A (Stable)	[ICRA]A (Stable)	
3	Letter of Credit	Short Term	420.0	NA	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	
4	Non-Fund based	Long Term / Short Term	-	NA	-	-	-	[ICRA]A (Stable)/ [ICRA]A1	
5	Unallocated	Long Term / Short Term	0.0	NA	-	[ICRA]A (Positive)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1	

Complexity level of the rated instrument

Instrument	Complexity Indicator
Fund Based – Cash Credit	Simple
Non-fund based - Bank Guarantee	Very Simple
Non-fund based – Letter of Credit	Very Simple

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 No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Cash Credit	-	-	-	350.0	[ICRA]A+ (Stable)
NA	Bank Guarantee	-	-	-	3130.0	[ICRA]A+ (Stable)
NA	Letter of Credit	-	-	-	420.0	[ICRA]A1

Source: Company

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

Annexure II: List of entities considered for consolidated analysis

Not applicable

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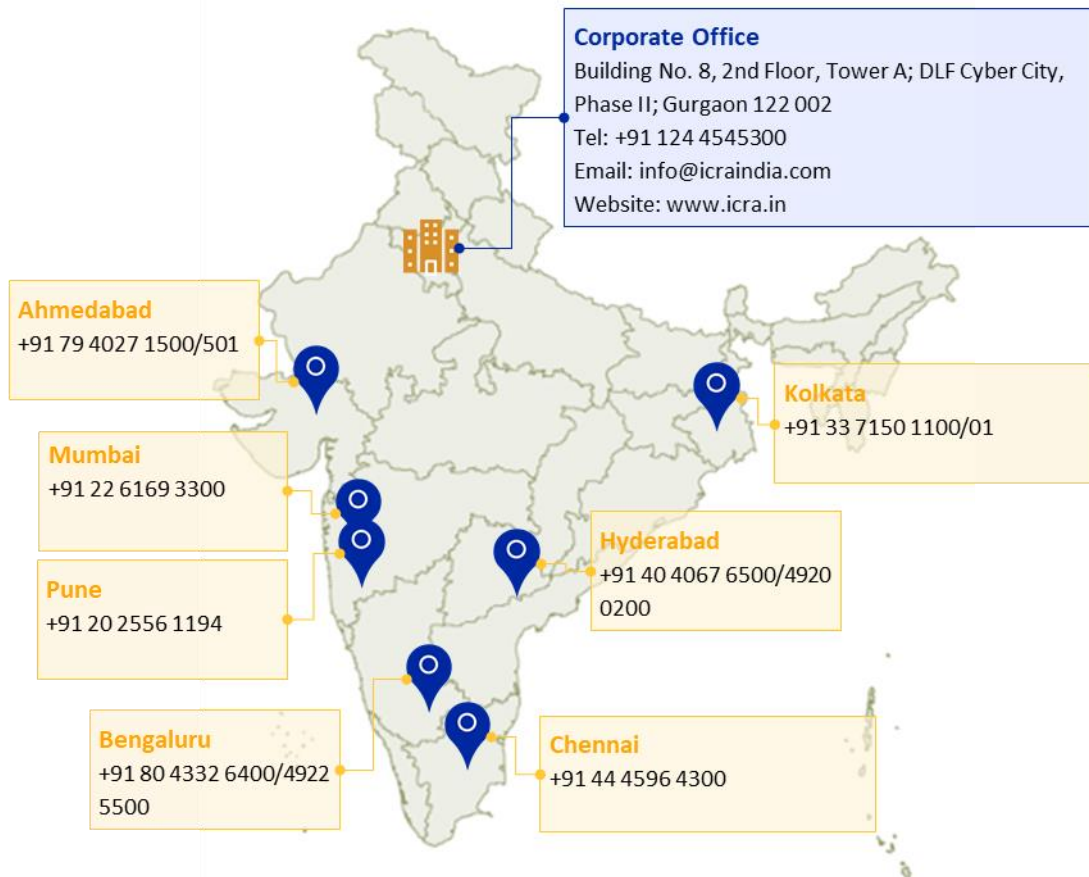
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