

September 22, 2023

GVPR Engineers Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based CC	350.00	360.00	[ICRA]A+(Stable); reaffirmed
Long-term – Non-fund based	3130.00	3000.00	[ICRA]A+(Stable); reaffirmed
Short-term – Non-fund based	420.00	540.00	[ICRA]A1; reaffirmed
Total	3900.0	3900.0	

*Instrument details are provided in Annexure I

Rationale

The reaffirmation of ratings favourably factors in GVPR Engineers Limited's (GVPR) healthy scale of operations, which is expected to sustain in the medium term, supported by its strong order book position of Rs. 12,267.3 crore (4.7 times of its operating income in FY2023). GVPR's revenues grew by 35% to Rs. 2,646.1 crore in FY2023 and is estimated to cross Rs. 3,000 crore in FY2024. The ratings positively note its strong liquidity, with unencumbered cash balances of Rs. 1,006.2 crore and negative net debt position as on March 31, 2023. The ratings consider GVPR's reputed client profile with the share of Central Government and multi-lateral agencies-funded projects increasing to 72% of the order book as on March 31, 2023 from 6% as on March 31, 2020, which is likely to result in a comfortable cash conversion cycle. The ratings consider the stable and healthy operating margins of more than 10% over the past four years, owing to improved scale of operations and reduced dependence on sub-contractors. ICRA takes note of GVPR's established track record of over four decades in the execution of irrigation and drinking water projects.

The ratings are, however, constrained by the modest coverage metrics with PBDIT/interest at 3.6 times for FY2023, moderately leveraged capital structure with TOL/TNW at 1.6 times as on March 31, 2023. Adjusting for the free cash balances, the net TOL/TNW stood comfortable at 0.8 times as on March 31, 2023. The segment concentration remains high with the irrigation and drinking water divisions contributing to 90% of the total revenues in FY2023. Although the order book is geographically diversified with orders spread across seven states, top 3 states accounted for 79% of the order book as on June 30, 2023. GVPR's operations are working capital intensive in nature and are partially funded by extended period from vendors and availing interest-bearing mobilisation advances. Moreover, provisioning related to the operation and maintenance (O&M) reserves (Rs. 279.7 crore as on March 31, 2023) resulted in higher TOL. Any material increase in the actual O&M expenditure vis-à-vis O&M income and reserves, could have a bearing on its profitability and remains a key rating monitorable.

The Stable outlook reflects ICRA's opinion that GVPR will be able to maintain its revenue growth on the back of a strong order book position, comfortable cash conversion cycle and strong liquidity position.

Key rating drivers and their description

Credit strengths

Strong revenue growth and order book position – GVPR revenues increased by ~35% to Rs. 2,646.1 crore in FY2023. The company billed Rs. 1,079.1 crore in Q1 FY2024, supported by healthy order book position of Rs. 12,267.29 crore as on June 30, 2023. Further, the revenue growth is expected to continue in the medium term on the back of improved order book execution and the revenues are estimated to cross Rs. 3,000 crore in FY2024.

Healthy operating margins – The operating margins stood healthy at above 10% over the past four years owing to the improved scale of operations and reduced dependence on sub-contractors. Despite the steep increase in key raw material prices in FY2023, the operating margins declined by 140 bps to 10.4% in FY2023 from 11.8% in FY2022 as the company was able to partly pass on the price hikes. Given this, its ability to pass on the escalations in a timely manner and sustain the profitability margins above 10% levels remain a key rating monitorable.

Reputed client profile – The company has a reputed client profile with key orders from the Central Government funded Jal Jeevan Mission projects and corporations like Brihanmumbai Municipal Corporation, Maharashtra Jeevan Pradhikaran. With receipt of orders from reputed clients, the share of Central Government and multi-lateral agencies-funded projects increased to 72% of the order book as on March 31, 2023 from 6% as on March 31, 2020, which is expected to result in a comfortable cash conversion cycle. Further, the liquidity position is strong, with an unencumbered cash balance of Rs. 1,006.2 crore and negative net-debt position as on March 31, 2023.

Credit challenges

Modest coverage metrics – The company's interest cover (OPBDIT/interest expense) remains modest at 2.9 times in FY2023. It maintains sizeable cash balances on a consistent basis, which has resulted in stable interest income. Adjusting for the interest income, PBDIT/interest expenses remained moderate at 3.6 times in FY2023, as compared to other entities at the similar rating level. Given the expected improvement in the revenues, the debt coverage indicators are likely to improve over the medium term in absence of any large debt-funded capital expenditure.

Further, GVPR's operations are working capital intensive in nature and are funded through extended credit period from vendors/sub-contractors and mobilisation advances, thereby resulting in moderately leveraged capital structure with TOL/TNW of 1.6 times as of March 2023. Moreover, provisioning related to the O&M reserves (Rs. 279.7 crore as on March 31, 2023) resulted in higher TOL. Nonetheless, adjusting for the free cash balance, the net TOL/TNW stood comfortable at 0.8 times as on March 31, 2023.

O&M related risk – 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 the actual O&M expenditure vis-à-vis O&M income and reserves, could have a bearing on its profitability and remains a key rating monitorable.

Moderately diversified order book – Although the order book is geographically diversified with orders spread across seven states, the top 3 states (Uttar Pradesh, Maharashtra, and Rajasthan) accounted for 79% of the order book as on June 30, 2023. Given its significant focus on irrigation and drinking water across the country, the company has secured multiple drinking water and irrigation projects and derived 90% of the total revenues in FY2023 from the same. Further, sewage treatment works and water supply segments constituted around 75% of the pending order book as on June 30, 2023, and the revenue concentration on these divisions is expected to continue in the medium term.

Liquidity position: Strong

GVPR's liquidity position is strong, with unencumbered cash balance of Rs. 1,006.2 crore as on March 31, 2023. The company has debt repayment of Rs. 5.95 crore, capex plans of Rs. 30 crore and moderate investment plans in FY2024, which can be comfortably met through its cash flows from operations. The average working capital utilisation for the past 15 months ending July 2023 remained at 82%. Availability of sizeable free cash balances is 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 the liquidity position. A specific credit metric for an upgrade is PBDIT/interest expense remaining higher than 7 times, on a sustained basis.

Negative factors – Pressure on GVPR’s ratings may arise if there is any decline in billing or elongation of the working capital cycle significantly depletes the company’s liquidity reserve. A specific credit metric for a downgrade is net TOL/TNW increasing 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. Its key management includes Mr. G. Shiva Shankar Reddy (Chairman), Mr. G. Veera Sekhar Reddy (Managing Director) and it is 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. GVPR has a geographical presence across nine states, 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 (audited)

	FY2022	FY2023
Operating income	1967.6	2646.1
PAT	138.1	177.8
OPBDIT/OI	11.8%	10.4%
PAT/OI	7.0%	6.7%
Total outside liabilities/Tangible net worth (times)	1.7	1.6
Total debt/OPBDIT (times)	1.4	1.0
Interest coverage (times)	2.9	2.9
PBDIT/Interest (times)	3.5	3.6

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

Source: GVPR, ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current Rating (FY2024)		Chronology of Rating History for the Past 3 Years			
		Amount Rated (Rs. crore)	Amount Outstanding as of March 31, 2023 (Rs. crore)	Date & Rating in	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
				Sep 22, 2023	Sep 06, 2022	Sep 24, 2021	Aug 07, 2020
1 Cash credit	Long-term	360.00	NA	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Positive)	[ICRA]A (Stable)
2 Bank guarantee	Long- Term	3000.00	NA	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Positive)	[ICRA]A (Stable)
3 Letter of credit	Short Term	540.00	NA	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1
4 Unallocated	Long Term / Short Term	0.0	NA	-	-	[ICRA]A (Positive)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1

Complexity level of the rated instruments

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	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based – Cash credit	NA	NA	NA	360.00	[ICRA]A+ (Stable)
NA	Non-fund based – Bank guarantee	NA	NA	NA	3000.00	[ICRA]A+ (Stable)
NA	Non-fund based – Letter of credit	NA	NA	NA	540.00	[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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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.

For more information, visit www.icra.in

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