P. Venkata Ramanaiah Engineers and Contractors Private Limited (PVRECPL)

April 29, 2020

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crores)	Rating Assigned
1.	Long Term Facility – Fund Based – Cash Credit	15.00	IVR BBB-/ Credit Watch with Developing Implications; (IVR Triple B Minus Credit Watch with Developing Implications)
2.	Long Term/Short Term Facility – Non-Fund Based – Bank Guarantee	60.00	IVR BBB-/ Credit Watch with Developing Implications and IVR A3 (IVR Triple B Minus Credit Watch with Developing Implications and IVR A three)
	Total	**75.00**	

Details of Facilities are in Annexure I

Detailed Rationale

The aforesaid rating assigned to the bank facilities of the entity derives comfort from its experienced promoters & management team, healthy revenue growth & Stable EBITDA margin, healthy debt protection metrics, proven project execution capability, reputed clientele, strong order book reflecting satisfactory short to medium term revenue visibility and liquidity remained adequate supported by working capital management. However, the rating strengths are partially offset by geographical concentration of order book, highly fragmented & competitive nature of the construction sector with significant price war and susceptibility of operating margin to volatile input prices.

Key Rating Sensitivities

Upward factors:

- Substantial & sustained improvement in revenue while maintaining profitability & debt protection metrics

Downward factors:

- Any decline in revenue and profitability and/or debt led capex leading to deterioration in debt protection metrics

Key Rating Drivers with detailed description

Key Rating Strengths

Experienced promoters & management team:

The company is being managed by experienced directors and promoters. Collectively, they have rich experience in the industry and are instrumental in setting up and developing the company. Having operated in industry since last 3 decades, the promoters have established a strong network with suppliers and customers. The company has a team of experienced and capable professionals, having over a two decade of experience in the segment, to look after the overall management. The day-to-day operations of the company are looked after by the senior management having considerable experience required in the current line of business.

Healthy revenue growth & Stable EBITDA margin:

The Company's topline is on a steady increase with a CAGR of 43% during the last three years ended FY19. The FY20 provisional figures depicted an increase to INR 264.91 Crore (FY19: INR 218.76 Crore, FY18: INR 108.87 Crore, FY17: INR 107.07 crore) as company has established a good presence in the regions it operates. The EBITDA margins improving steadily to 8.82% in FY20 (Provisionals) (8.67%, 8.71%,7.62%).

Healthy Debt protection metrics:

Debt protection metrics expected to remain healthy moving forward. As per the FY20 provisional financials adjusted overall gearing ratio improved to 0.99x in FY20 from 2.11x in FY19 and 2.78x in FY18. The long-term debt against GCA improved at 1.46x in FY20 (provisional) from 1.96x in FY19 and 3.19x in FY18. The long-term debt against EBIDTA showed improvement at 1.13x in FY20 (provisional) from 1.52x in FY19 and 2.28x in FY18.

***Proven project execution capability*:**

Over the past years, the entity has successfully completed many projects in Maharashtra, Andhra Pradesh & Telangana and ensured timely completion of its projects. Also, the entity receives repeat orders received from its clientele accrediting its execution capability.

***Reputed clientele*:**

PVR mainly bids for tenders floated by various government departments/entities and is mainly engaged in railway construction, irrigation & roads construction. The company has built up a strong relationship with its clientele over the years, and is constantly expanding. Some of the reputed clients served by the company are Central railway, South East Central Railway, South central railway, Irrigation & PWD department of Andhra Pradesh & Maharashtra.

Strong order book reflecting satisfactory short to medium term revenue visibility:

The firm has a strong unexecuted order book of INR 746.38 Crore as on December 31, 2019 with orders across fourteen contracts, which is about 3.4 times of its FY19 revenue. Majority of the orders are expected to be completed by FY22, indicating a satisfactory short to medium term revenue visibility.

Liquidity remained adequate supported by working capital management:

The current ratio & quick ratio of the company remain comfortable as on March 31, 2019 and Provisionals of FY20. The company's cash flows from the operations also remains adequate. The liquidity of the firm expected to remain Adequate in the near to medium term in view of sufficient cash accruals in comparison to debt repayment. The average utilization of the same remains almost nil in the last twelve months ended February 2020. The company is able to manage the working capital by keeping the cash conversion low and uses the cash credit limit to fund the short -term liquidity mismatch, if any. With the company's reputation the company is able to avail high credit period from its suppliers & sub-contractors.

Key Rating Weaknesses

Geographical concentration of order book:

The present unexecuted order book is concentrated in the states of Maharashtra (78.94%), Telangana(4.63%), Andhra Pradesh(12.40%) & Karnataka (4.03%). However, the company has adequate experience to execute projects in these states and also operating in a concentrated geography provides efficient control and reduces the logistical expense.

Highly fragmented & competitive nature of the construction sector with significant price war:

The domestic infrastructure/construction sector is highly crowded with presence of many players with varied statures & capabilities. Boom in the infrastructure sector, a few years back, resulted in increase in the number of players. While the competition is perceived to be healthy, significant price cut by few players during the bidding process is a matter of concern as the same can dent the margins.

Susceptibility of operating margin to volatile input prices:

Major raw materials used in civil construction activities are steel & cement and in road construction activities are stone, asphalt/bitumen and sand which are usually sourced from large players/dealers at proximate distances. The raw material & labour (including sub-contracting) cost forms the majority chunk of the total cost of sales for the last three years. As the raw material prices & labour (including sub-contracting) cost are volatile in nature, the profitability of the company is subject to fluctuation in raw material prices & labour (including sub-contracting) cost. However, presences of escalation clause in most of the contracts protect the margin to an extent.

Analytical Approach: Standalone

Applicable Criteria

Rating Methodology for Infrastructure Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity – Adequate

The liquidity of the company expected to remain Adequate in the near to medium term in view of sufficient cash accruals in comparison to debt repayment. The average fund based working capital utilisation remained almost nil during the last twelve months ended February 2020.

About the Group and Company

Established as a partnership firm between Mr. P. Venkata Ramaniah and his family members in 1988. It reconstituted as a private limited company in January 2019. The company is based out of Hyderabad and is into execution of EPC works.

Financials:

For the year ended/ As On	31-03-2018	31-03-2019	31-03-2020
	(Audited)	(Audited)	(Provisionals)
Total Operating Income	108.87	218.76	264.91
EBITDA	9.48	18.97	23.36
PAT	3.78	9.27	13.69
Total Debt	33.37	38.21	32.40
Tangible Net-worth	12.02	18.08	32.68
Ratios			
EBITDA Margin (%)	8.71	8.67	8.82
PAT Margin (%)	3.46	4.17	5.13
Overall Gearing Ratio (x)	2.78	2.11	0.99

* Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: N.A.

Any other information: N.A.

Rating History for last three years:

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Long Term Facility – Fund Based - Cash Credit	Long Term	15.00	IVR BBB-/ Credit Watch with Developing Implications; (IVR Triple B Minus Credit Watch with Developing Implications)	--	--	--
3.	Short Term/Long Term Facilities – Non-Fund Based – Bank Guarantee	Short Term/ Long Term	60.00	IVR BBB-/ Credit Watch with Developing Implications and IVR A3 (IVR Triple B Minus Credit Watch with Developing Implications and IVR A three)	--	--	--

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company’s long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

Annexure I: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Facility – Fund Based - Cash Credit	NA	NA	Revolving	15.00	IVR BBB-/ Credit Watch with Developing Implications; (IVR Triple B Minus Credit Watch with Developing Implications)
Long Term/Short Term Facility – Non Fund Based – Bank Guarantee	NA	NA	--	60.00	IVR BBB-/ Credit Watch with Developing Implications and IVR A3 (IVR Triple B Minus Credit Watch with Developing Implications and IVR A three)