



Press Release

AVP Constructions Private Limited

April 05, 2023

Ratings

Instrument/ Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facility	12.50	IVR BB/ Stable (IVR double B with Stable outlook)	Reaffirmed	Simple
Short Term Bank Facility	4.00	IVR A4+ (IVR A four plus)	Reaffirmed	Simple
Total	16.50 (INR Sixteen crore and fifty lakhs only)			

Details of Facilities are in Annexure 1

Detailed Rationale

The reaffirmation of the ratings assigned to the bank facilities of AVP Constructions Private Limited (ACPL) derives strength from long experience of the promoters, reputed client profile leading to low counter party risk and satisfactory order book position. However, the ratings are constrained on account of company's small scale of operations, leveraged capital structure, high geographical and sectoral concentration risk, competitive nature of industry due to tender-based order awarding system and volatility associated with fluctuations in input prices.

Key Rating Sensitivities:

Upward Factors

- Significant growth in scale of operations with further improvement in profitability metrics thereby leading to overall improvement in cash accruals and liquidity.
- Execution of orders in hand within stipulated time frame and collection of receivables in timely and regular basis
- Sustained improvement in capital structure and debt coverage indicators

Downward Factors



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- Any sizeable de-growth in scale of operations and/or profitability from present level thereby impacting the debt coverage indicators and/or any deterioration in the financial risk profile.
- Delays in execution of orders beyond stipulated time frame and delay in receipt of collection of receivables from customers on a sustained basis.
- Any significant rise in working capital intensity or unplanned capex leading to a deterioration in the liquidity position.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Long experience of the promoters**

The promoters of the company Mr. D Prasanna and Mr. B Venkateshwarlu has over two decades of association with the civil construction industry and has established healthy relationship with its raw material suppliers. Long experience of ACPL's promoters and its established track record of operation strengthens the operational risk profile of the company. The entity benefits from its proven track record for execution of projects for public entities, when bidding for tenders.

- **Reputed client profile leading to low counter party risk**

The company undertakes works contract mainly for Government departments which includes NABARD Rural Road and Highways, NHAI etc. Since the client base of the company are majorly Government entities hence the counterparty risk remains low.

- **Satisfactory order book position**

As of March 28, 2023 the company has an unexecuted order value of Rs. 139.83 in hand, which is 2.19x of FY22 revenue and the same is expected to get executed in next 1-2 years which provides revenue visibility going forward. Infomerics notes that the company's ability to add new orders going forward and timely completion of new and existing orders will be key rating monitorable.



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Key Rating Weaknesses

- **Relatively small scale of operations**

ACPL is a small player in civil construction business majorly execute the works order of construction of road, railway infrastructure and transportation of pond ash and slime. The scale of operations of the entity continues to remain small and stood at Rs. 63.89 crore in FY22. Though the entity grew by around 10% from last year driven by increase in flow of work, addition of new contracts and timely execution of the same.

- **Leveraged capital structure**

The capital structure of the entity continues to remain highly leveraged marked by total debt of Rs. 31.67 crore as on March 31, 2022 (P.Y - Rs. 26.99 crore) as against the tangible net worth of Rs. 9.73 crore on March 31, 2022 (PY: Rs. 4.70 crore). The rise in total debt was due to increase in term loan (which the company has taken in the form of equipment loans and vehicle loans) coupled with increase in unsecured loans. The overall gearing of the company slightly improved from FY21 levels and stood at 3.25x (PY: 5.74x) as on March 31, 2022 majorly due to increase in net worth due to accumulation of profits despite rise in debts. Total indebtedness as reflected by the TOL/TNW improved to 4.98x as on March 31, 2022 (FY21: 9.38x).

- **High geographical and sectoral concentration risks**

The major portion of the company's revenues and the current order book are concentrated in Tamil Nadu, exposing ACPL to high geographical concentration risk. Moreover, the company also remains exposed to high sectoral concentration risk with operations primarily limited to road construction projects.

- **Exposure to intense competition and tender based nature of operations**

ACPL is a civil contractor working on government tenders. As the entry barrier in this sector is low and presence of multiple players exposes the entity to intense competition. Additionally, as the company acquires works through tendering process, the exposure to intense competition restricts the bargaining power of the company which exerts pressure on margins.



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- **Volatility associated with fluctuations in input prices**

The major input materials for the entity are Bitumen, grits cement, structural steel bearings, steel guarders etc. the prices of which are volatile. However, the orders executed by the entity contains price escalation clause on the order and thus the entity mitigates price volatility of the input materials to some extent. This apart, any increase in labour prices will also impact its profitability being present in a highly labour-intensive industry

Analytical Approach: Standalone

Applicable Criteria:

[Rating Methodology for Infrastructure Companies](#)

[Financial Ratios & Interpretation \(Non-Financial Sector\)](#)

[Criteria for assigning rating outlook](#)

Liquidity – Adequate

The company's liquidity remains adequate marked by sufficient expected cash accruals going forward to meet the debt repayment obligations. However, the average working capital utilization over the past twelve months ended December 2022 remained high at around 94%. However, the entity has increased its cash credit limits in the month of November 2022 which will provide buffer in liquidity to an extent. The current ratio remains satisfactory at 1.51x. The entity also has free cash balance of Rs.3.09 crore as on March 31, 2022. Moreover, absence of any debt funded capex in the near term provides further cushion to the liquidity position of the company.

About the Company

Incorporated in 2009, by D Prasanna and B Venkateshwarlu, AVP Constructions Private Limited is engaged in civil construction business. The company is involved in the construction of roads and bridges in Tamil Nadu. The promoters of ACPL have an experience of over two decades in this line of business.

Financials (Standalone):

For the year ended* / As on	31-March-21 (Audited)	31-March-22 (Audited)
Total Operating Income	58.06	63.89



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EBITDA	6.05	10.27
PAT	1.62	2.44
Total Debt	26.99	31.67
Tangible Net-worth	4.70	9.73
EBITDA Margin (%)	10.42	16.07
PAT Margin (%)	2.79	3.80
Overall Gearing Ratio (x)	5.74	3.25

**Classification as per Infomerics' standards*

Status of non-cooperation with previous CRA: CRISIL has moved the rating of ACPL into Issuer Non-Cooperating category as the company did not co-operate in the rating procedure despite repeated follow ups as per their Press Release dated January 27, 2023.

Any other information:

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22 (March 23, 2022)	Date(s) & Rating(s) assigned in 2020-21
1.	Cash Credit	Long Term	12.50	IVR BB/Stable	-	IVR BB/Stable	-
2.	Bank Guarantee	Short Term	4.00	IVR A4+	-	IVR A4+	-

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About Infomerics Ratings:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).



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Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks. Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

For more information visit www.infomerics.com

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Cash Credit	-	-	-	12.50	IVR BB/ Stable (IVR double B with Stable outlook)
Bank Guarantee	-	-	-	4.00	IVR A4+ (IVR A four plus)

Annexure 2: List of companies considered for consolidated analysis: Not Applicable

Annexure 3: Facility wise lender details: <https://www.infomerics.com/admin/prfiles/Lender-AVP-05042023.pdf>

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

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.