



Press Release

AVP Constructions Private Limited

March 23, 2022

Ratings

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

Details of Facilities are in Annexure 1

Detailed Rationale

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 a moderate order book position. However, the ratings are constrained on account of the company's relatively small scale of operations, aggressive capital structure, high geographical and sectoral concentration risk and competitive nature of industry due to tender-based order awarding system and.

Key Rating Sensitivities:

Upward Factors

- Significant improvement in the scale of operations along with maintaining its profitability, leading to healthy cash accruals on a sustained basis
- Improvement in capital structure, with moderation in gearing ratio.

Downward Factors

- Delay in order execution leads to a significant decline in its revenue and/or profitability thereby adversely impacting the financial risk profile of the company



Press Release

- Any significant rise in the working capital intensity and/ or unplanned debt-funded 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 D Prasanna and B Venkateshwarlu, have over two decades of association with the civil construction business. Long experience of ACPL's promoters and its established track record of operations strengthen the operational risk profile of the company.

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

The company undertakes work contracts mainly for the Government departments which includes NABARD Rural Road and Highways. Since the client base of the company is reputed, the counterparty risk remains low.

- **Moderate order book position**

As on January 31st, 2022, the company has an order book outstanding position of ~ Rs. 114 crore (1.96x of FY2021 revenues) which provides moderate revenue visibility in the near term. Infomerics notes that the company's ability to add new orders, going forward, and timely completion of the same will remain a key rating factor.

Key Rating Weaknesses

- **Relatively small scale of operations**

The company's scale of operations continues to remain relatively small, notwithstanding an increase to Rs. 58.06 crore in FY2021 from Rs. 33.58 crore in FY2020, registering a YoY growth of ~73% primarily on account of timely execution of the awarded contracts.

- **Aggressive capital structure**

The capital structure of the company is leveraged as marked by the total debt of Rs. 26.99 crore (PY: Rs. 11.67 crore) as against the tangible net worth of Rs. 4.70 crore (PY: Rs. 3.15 crore). The overall gearing of the company stood at 5.74x (PY: 3.70x) as on March 31, 2021.



Press Release

Total indebtedness as reflected by the TOL/TNW was high at 9.38x as on March 31, 2021 (FY20: 6.83x).

- **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.

- **Competitive nature of industry due to tender-based order awarding system**

ACPL procures orders through tenders. Entities that meet the technical qualification criteria qualify for financial bidding, and subsequently the contract is awarded to the lowest (L1) bidder. Due to such tender-based order procurement, the company faces stiff competition, which exerts pressure on margins.

Analytical Approach: Standalone

Applicable Criteria:

[Rating Methodology for Infrastructure Companies](#)

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

Liquidity – Adequate

The liquidity position of the company is adequate marked by its expected gross cash accruals as against debt obligations during FY2022-FY2024. At the same time, the company's bank limits are highly utilized to the extent of ~95% on an average for the period ended January 2022 indicating extensive utilization of working capital. Its current ratio was 1.17 times in FY21. However, no significant debt funded capex provides comfort to the liquidity to an extent.

About the Company



Press Release

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-20 (Audited)	31-March-21 (Audited)
Total Operating Income	33.88	58.06
EBITDA	3.52	6.05
PAT	0.76	1.62
Total Debt	11.67	26.99
Tangible Net-worth	3.15	4.70
EBITDA Margin (%)	10.38	10.42
PAT Margin (%)	2.22	2.79
Overall Gearing Ratio (x)	3.70	5.74

**Classification as per Infomerics' standards*

Status of non-cooperation with previous CRA: Not applicable

Any other information:

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2021-22)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1.	Cash Credit	Long Term	12.50	IVR BB/ Stable	-	-	-
2.	Bank Guarantee	Short Term	4.00	IVR A4+	-	-	-

Name and Contact Details of the Rating Analyst:



Press Release

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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).

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



Press Release

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
Bank Guarantee	-	-	-	4.00	IVR A4+

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

Annexure 3: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/AVP-Constructions-lenders-mar22.pdf>

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

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.