# VARKS Engineers Private Limited

## August 02, 2024

**Ratings**

| Security / Facility | Amount (Rs. crore) | Current Ratings | Previous Ratings | Rating Action | Complexity Indicator |
|---|---|---|---|---|---|
| Long Term Bank Facilities | 39.00 | IVR BBB-; Stable (IVR Triple B Minus with Stable outlook) | - | Assigned | Simple |
| Short Term Bank Facilities | 66.00 | IVR A3 (IVR A Three) | - | Assigned | Simple |
| **Total** | **105.00 (Rupees one hundred and five crore only)** | | | | |

**Details of Facilities/Instruments are in Annexure 1. Facility wise lender details are at Annexure 2. Detailed explanation of covenants is at Annexure 3.**

**Detailed Rationale**

The ratings assigned to the bank facilities of VARKS Engineers Private Limited (VEPL) derives comfort from its experienced promoters, proven project execution capability and healthy order book position reflecting satisfactory near to medium-term revenue visibility. The ratings also consider sustained improvement in business performance of the company, comfortable capital structure coupled with satisfactory debt protection metrices. However, these rating strengths are partially offset by its exposure to geographical concentration risk, customer concentration risk, susceptibility of operating margin to volatile input prices, tender driven nature of business with presence in highly competitive industry and working capital intensive nature of its operation.

The stable outlook reflects the Government's focus on improving infrastructure which is expected to aid the business growth of the company in the medium to long term.

**Key Rating Sensitivities:**

**Upward Factors**

- Growth in scale of operation with improvement in profitability on a sustained basis and consequent improvement in cash accruals
- Sustenance of the capital structure with further improvement in debt protection metrics
- Improvement in the working capital management leading to improvement in liquidity

**Downward Factors**

- Dip in revenue and/or moderation in profitability impacting the debt protection metrics on a sustained basis
- Deterioration in the capital structure with moderation in overall gearing to over 1x
- Moderation in liquidity marked by elongation in operating cycle

**List of Key Rating Drivers with Detailed Description**

**Key Rating Strengths**

**Experienced promoters**

VEPL was promoted by Mr. N. Sudarshan Reddy who has been engaged in civil construction business for more than four decades by virtue of being associated with his family concern M/s Nimma Narayan before starting this company. The promoters' experience along with their strong understanding of construction industry and healthy relationship with customers and suppliers is expected to continue to support the business. All the promoters together look after the overall operation of the company along with adequate support from team of qualified professionals.

**Proven project execution capability**

Over the past years, VEPL has successfully completed many projects across the state of Telangana and ensured timely completion of all its projects. The repeat orders received from the government entities validate its construction capabilities.

**Healthy order book size reflecting satisfactory medium-term revenue visibility**

As on July 01, 2024, VEPL has an unexecuted order book of Rs.1869.39 crore, which is ~7.63x of FY24 (Prov.) [FY refers to the period from April 1 to March 31] revenue. It has one L1 order of Rs.125.43 crore, including which its order book stands at Rs. 1994.82 crore as on July 01, 2024, which is ~8.14 times of FY24 (Prov.) revenue. All the orders are executable in next 24-36 months and provides healthy revenue visibility over short to medium term.

**Growth in scale of operation in FY24 (Prov.) along with healthy profitability**

The total operating income (TOI) of VEPL has witnessed an erratic trend over the last three fiscals (FY22 (Audited) - FY24 (Prov.)). Despite successful execution of orders, TOI of VEPL declined in FY23 by ~6% to Rs.160.48 crore from Rs. 171.23 crore in FY22 on account of the delays in receipt of few receivables from the concerned authorities. However, the TOI has increased by ~53% in FY24 (Prov.) to Rs.245.05 crore from Rs.160.48 crore in FY23, driven by higher execution of orders. The profit margins of the company remain healthy over the years. The EBITDA margin though moderate in FY24 (Prov.) continued to remain healthy at over 12% over the past two fiscal years. The PAT margin has also improved from 4.51% in FY23 and stood healthy at 6.98% in FY24 (Prov.). In Q1FY25, the company has achieved a revenue of Rs. 69.42 crore.

**Comfortable capital structure and satisfactory debt protection metrices**

The capital structure of the company remained comfortable over the past three account closing dates marked by overall gearing of 0.53x as on March 31, 2024 (Prov.), against 0.69x as on March 31, 2023. The improvement in gearing is driven by accretion of profit to reserves coupled with scheduled repayment of term loans and lower utilization of bank borrowings as on the balance sheet date. Overall indebtedness of the company as reflected by TOL/TNW has also remained satisfactory at 1.39x as on March 31, 2024 (Prov.) (2.11x as on March 31, 2023). Debt protection metrics as indicated by interest coverage ratio has improved from 3.09x in FY23 to 5.40x in FY24 (Prov.) due to decline in finance charges coupled with rise in absolute EBITDA. The interest and finance charges declined in FY23 on the back of a decrease in debt levels. Further, with decline in debt levels in FY24 (Prov.), Total Debt/EBITDA and Total debt/NCA have improved to 1.67x and 2.34 years respectively as on March 31, 2024 (Prov.) against 2.79x and 4.41 years respectively as on March 31, 2023.

**Key Rating Weaknesses**

**Exposure to geographical concentration risk**

The present order book is majorly skewed towards construction activities in the state of Telangana from various government entities indicating a geographical concentration risk. However, the company has adequate experience to execute projects in Telangana which provides a comfort.

**Customer concentration risk**

VEPL has high customer concentration risk since the company is dependent majorly on two clients i.e. Irrigation & Command Area Development (CAD) and Water Resource Department for generating revenue. VEPL executes various projects for Irrigation & CAD and Water Resource Department.

**Susceptibility of operating margin to volatile input prices**

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

**Tender driven nature of business with presence in highly competitive intensity**

The company participates in the tender passed by the government for civil construction projects. Hence, the entire business prospects are highly dependent on the government policies and tenders floated by the government. Further, the construction industry is highly fragmented in nature with presence of large number of unorganized players and a few large, organized players.

**Working capital intensive nature of operations**

The operation of the company remained working capital intensive over the past three years marked by its high operating cycle of 131 days in FY24 (prov.) (195 days in FY23) driven by high inventory period of 139 days (206 days in FY23) due to significant portion of unbilled revenue and average collection period of 43 days in FY24 (Prov.) (84 days in FY23). Further, the average working capital utilisation for past 12 months ended June 2024 remains moderate at ~81%. However, the company has significant amount of money blocked as retention money. Including the same, the debtor's collection period stood at 134 days in FY24 (Prov.), resulting in operating cycle of 221 days in FY24 (prov.).

**Analytical Approach:** Standalone

**Applicable Criteria:**

Rating Methodology for Infrastructure Companies

Financial Ratios & Interpretation (Non-Financial Sector).

Criteria for assigning Rating outlook.

Policy on Default Recognition

Complexity Level of Rated Instruments/Facilities

**Liquidity – Adequate**

The liquidity profile of VEPL is expected to remain adequate as the company is expected to generate adequate gross cash accruals in the range of Rs. 26.45 - Rs.35.32 crore to serve its debt obligations in the range of Rs. 0.77 – Rs.2.27 crore during FY25-FY27. Moreover, the current ratio remained comfortable at 3.27x as on March 31, 2024 (Prov.). However, the average fund-based utilization of the company remained moderate at ~81% during the past 12 months ended in June 2024 indicating moderate liquidity buffer for the company.

**About the Company**

VARKS Engineers Private Limited (VEPL) was established in 1995 as partnership firm under the name of M/s VARKS by Mr. N. Sudarshan Reddy. Later in February 2005, VEPL was reconstituted as private limited company. The company is engaged in the civil construction business since its inception. It specializes in underground and tunnelling works, hydropower, lift-irrigation projects, industrial and special purpose structures in the state of Telangana.

**Financials (Standalone):**

**(Rs. crore)**

| For the year ended/ As on* | 31-03-2023 | 31-03-2024 |
|---|---|---|
| | Audited | Provisional |
| Total Operating Income | 160.48 | 245.05 |
| EBITDA | 19.47 | 30.37 |
| PAT | 7.34 | 17.29 |
| Total Debt | 54.42 | 50.65 |
| Tangible Net Worth | 78.79 | 96.08 |
| EBITDA Margin (%) | 12.14 | 12.39 |
| PAT Margin (%) | 4.51 | 6.98 |
| Overall Gearing Ratio (x) | 0.69 | 0.53 |
| Interest Coverage (x) | 3.09 | 5.40 |

* *Classification as per Infomerics' standards.*

**Status of non-cooperation with previous CRA:** Nil

**Any other information:** Nil

**Rating History for last three years:**

| Sr. No. | Name of Security/ Facilities | Current Ratings (Year 2024-2025) | | | Rating History for the past 3 years | | |
|---|---|---|---|---|---|---|---|
| | | Type (Long Term/Short Term) | Amount outstanding (Rs. Crore) | Rating | Date(s) & Rating(s) assigned in 2023-24 | Date(s) & Rating(s) assigned in 2022-23 | Date(s) & Rating(s) assigned in 2021-22 |
| | | | | | - | - | - |
| 1. | Overdraft | Long Term | 25.00 | IVR BBB-; Stable | - | - | - |
| 2. | Cash Credit | Long Term | 14.00 | IVR BBB-; Stable | - | - | - |
| 3. | Bank Guarantee | Short Term | 66.00 | IVR A3 | - | - | - |

**Analytical Contacts:**

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**About Infomerics:**

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

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**Annexure 1: Instrument/Facility Details**

| Name of Facility/ Security | ISIN | Date of Issuance | Coupon Rate/ IRR | Maturity Date | Size of Facility (Rs. Crore) | Rating Assigned/ Outlook |
|---|---|---|---|---|---|---|
| Overdraft | - | - | - | - | 25.00 | IVR BBB-; Stable |
| Cash Credit | - | - | - | - | 14.00 | IVR BBB-; Stable |
| Bank Guarantee | - | - | - | - | 66.00 | IVR A3 |

**Annexure 2: Facility wise lender details**
**https://www.infomerics.com/admin/prfiles/len-VARKS-aug24.pdf**

**Annexure 3: Detailed explanation of covenants of the rated Security/facilities:** Not Applicable

**Annexure 4: List of companies considered for consolidated/Combined analysis:** 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.