

June 29, 2015

Facilities	Amount (Rs. Crore)	Ratings
Cash Credit	0.50	SMERA B/Stable (Assigned)
Term Loan	5.34	SMERA B/Stable (Assigned)
Bank Guarantee	0.25	SMERA A4 (Assigned)

SMERA has assigned long term rating of '**SMERA B**' (read as **SMERA B**) and short term rating of '**SMERA A4**' (read as **SMERA A four**) to the Rs. 6.09 crores bank facilities of Venkatasai Aerated Bricks Private Limited (VABPL). The outlook is '**Stable**'. The rating derives support from the experienced management, commencement of commercial operations and locational advantages of the company. However, the rating remains constrained by the company's nascent stage of operations and exposure to intense competition arising from low entry barriers in the AAC blocks manufacturing industry.

VABPL, incorporated in 2013, is a Hyderabad-based company that manufactures Autoclaved Aerated Concrete (AAC) blocks at its plant at Nalgonda, Andhra Pradesh. The promoters possess substantial experience, having been in the construction material industry since 1995. The plant commenced commercial operations from October 2014 and is located close to thermal power plants enabling the company to source raw materials easily.

Due to the nascent stage of operations, the company operates on a small scale with revenues of Rs.0.57 crore (provisional) for the period October 2014 to February 2015. VABPL has a moderate order book of Rs.0.59 crore in hand. The total project cost is around Rs.8.12 crore, funded through a term loan of Rs.5.34 crore and the balance through promoters' funds. The company is expected to incur net losses due to high interest and depreciation cost during the initial stages of operation leading to erosion of net worth. The gearing is expected to remain at around 2.50 times. VABPL is exposed to intense competition arising from low entry barriers in the business of manufacturing AAC blocks.

Outlook: Stable

SMERA believes VABPL will maintain a stable business risk profile over the medium term. The company will continue to benefit from the growing acceptance of AAC blocks. The outlook may be revised to 'Positive' in case the company registers strong growth in scale of operations while achieving improvement in profitability. The outlook may be revised to 'Negative' in case of deterioration in the company's financial risk profile on account of higher-than-expected increase in debt-funded working capital requirements.

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About the Company

VABPL, incorporated in 2013, is a Hyderabad-based company promoted by Mr. Brij Mohan, Mr. Madhusudanchari and Mr. Raghuvir Manchala. VABPL is engaged in the manufacture of AAC blocks at its manufacturing plant at Nalgonda district, Andhra Pradesh which has an installed capacity of 45,000 cubic meters.

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