

Press Release

Vrindavan Engineers And Contractors (India) Private Limited

October 05, 2017

Rating Assigned



Total Bank Facilities Rated*	Rs. 7.00 Cr.
Long Term Rating	SMERA BB- / Outlook: Stable
Short Term Rating	SMERA A4+

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BB-**' (read as **SMERA BB minus**) and short term rating of '**SMERA A4+**' (read as **SMERA A four plus**) on the Rs. 7.00 crore bank facilities of Vrindavan Engineers And Contractors (India) Private Limited. The outlook is '**Stable**'.

Vrindavan Engineers & Contractors India Private Limited (VECPL) incorporated in 2004 is a Goa-based company promoted by Mr. Shridharan Nair and family. The company is registered as a Class 1A contractor with Public Works Department and undertakes road construction contracts in Goa and Kerala.

Key Rating Drivers**Strengths**

- **Established operational track record and experienced management**

VECPL, incorporated in 2004, is engaged in the construction of roads in Goa and Kerala. The promoter, Mr. Shridharan Nair has more than a decade of experience in the said line of business.

- **Healthy profit margins**

VECPL's profit margins are healthy. The operating margin stood at 9.67 percent in FY2016-17 (Provisional) compared to 14.51 percent in FY2015-16. The margins declined as the company sub-contracts most of its work. The margins are expected to remain below 9 percent as the company plans to continue to sub contract in future too.

- **Moderate financial risk profile**

VECPL has a moderate financial risk profile marked by low net worth of Rs.3.92 crore as on 31 March, 2017 (Provisional) compared to Rs.3.21 crore as on 31 March, 2016. The gearing improved to 0.28 times as on 31 March, 2017 (Provisional) compared to 1.22 times as on 31 March, 2016 since the company did not avail of working capital funds as on 31 March, 2017. The Interest coverage ratio improved to 3.40 times in FY2016-17 (Provisional) from 2.43 times in FY2015-16.

- **Healthy order book level**

The company has unexecuted orders of Rs.50.60 crore as on September 2017 that provide revenue visibility for the medium term.

Weaknesses

- **Small scale of operations**

VECPL registered revenue of Rs.16.94 crore in FY2016-17 (Provisional) compared to Rs.7.34 crore in FY2015-16 on account of orders received and subcontracted during the year. The company registered revenue of Rs.6.31 crore from April 2017 - August 2017.

• Working capital intensive operations and project execution risk

The operations are working capital intensive marked by high Gross current assets of 211.88 days in FY2016-17 (Provisional) compared to 430 days in FY2015-16. The improvement in working capital is on account of completion of most of the projects during the year. The inventory days improved to 89 day in FY2016-17 from 277 days in FY2015-16. However, the average working capital utilisation for six months ended August 2017 stood low at 12.76 percent.

• Highly competitive and fragmented industry, tender based business

VECPL is exposed to intense competition in the industry from large number of players. VECPL depends on government contracts for generating revenue. The nature of business is tender based. Any changes in government policies may impact the work flow of the company.

Analytical Approach

SMERA has considered the standalone business and financial risk profile of VECPL.

Outlook: Stable

SMERA believes that VECPL will maintain a stable outlook in the medium term owing to the promoter's extensive industry experience and moderate operational track record. The outlook may be revised to 'Positive' if the company registers substantial growth in revenue while maintaining healthy profit margins. Conversely, the outlook may be revised to 'Negative' in case of lower than expected growth in revenues and profit margins or deterioration in the financial risk profile on account of higher-than-expected increase in debt-funded working capital requirements.

About the Rated Entity - Key Financials

For FY2016-17 (Provisional), VECPL reported profit after tax (PAT) of Rs.0.80 crore on operating income of Rs.16.94 crore compared with PAT of Rs.0.34 crore on operating income of Rs.7.34 crore in the previous year. The net worth stood at Rs.3.92 crore as on 31 March, 2017 (Provisional) compared to Rs.3.12 crore in the previous year.

Status of non-cooperation with previous CRA (if applicable)

CRISIL Limited in its press release dated October 03, 2016 had inter-alia mentioned the following: 'CRISIL has suspended its ratings on the bank facilities of Vrindavan Engineers and Contractors (India) Private Limited (VEC). The suspension of ratings is on account of non-cooperation by VEC with CRISIL's efforts to undertake a review of the ratings outstanding. Despite repeated requests by CRISIL, VEC is yet to provide adequate information to enable CRISIL to assess VEC's ability to service its debt. The suspension reflects CRISIL's inability to maintain a valid rating in the absence of adequate information. CRISIL views information availability risk as a key factor in its assessment of credit risk.

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>
- Infrastructure Entities - <https://www.smera.in/criteria-infra.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.50	SMERA BB- / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	3.00	SMERA A4+
Proposed	Not Applicable	Not Applicable	Not Applicable	0.50	SMERA BB- / Stable

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ABOUT SMERA

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