

Press Release

V D C Utility Services LLP

09 April, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 9.00 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 double B minus**) and short term rating of '**SMERA A4+**' (read as **SMERA A four plus**) on the Rs.9.00 crore bank facilities of V D C Utility Services LLP (VUSL). The outlook is '**Stable**'.

VUSL, (the erstwhile Vapi Drain Cleaners), established in 2014, is a limited liability partnership firm established by Mrs. Falguni Mistry, Mrs. Heema Patel, Mr. Malav Patel and others. The firm is engaged in the operation and maintenance of underground sewerage/drainage lines. Further, VUSL plans to set up a unit to manufacture RCC (Reinforced Concrete Cement) box duct in Dholera, Gujarat.

Key Rating Drivers

Strengths

- **Experienced and qualified management**

VUSL was established by Mr. Malav Patel, Mr. Swarnil Mistry, and Mr. Sunil Rajani and others who possess more than a decade of experience in the maintenance of water tanks, drainage and underground structures by virtue of their association with other concern including Aquatech Infra, Vapi Water Care and Serene Water Solutions Private Limited. The promoters have been able to establish longstanding relations with reputed customers including Larsen & Turbo Limited, Thane Municipal Corporation, Municipal Corporation of Greater Mumbai to name a few.

- **Healthy order book**

VUSL has healthy order book position marked by current order in hand of Rs.40.80crore as on 31st December 2017 supported by contract from L&T Construction Water and Effluent Treatment for manufacturing, supply and laying of RCC power ducts in Gujarat. The healthy order book provides comfortable revenue visibility over the medium term.

Weaknesses

- **Project implementation risk**

VUSL plans to undertaken capital expenditure of Rs 7.96 crore to setup a manufacturing facility of RCC box ducts. The project is to be funded through Rs 5.96 crore of bank borrowings and Rs 2.00 crore of equity infusion. The debt for the project is yet to be tied up exposing the firm is to significant funding risk. Moreover, the project is scheduled to be completed by June 2018 provided the loans are sanctioned in a timely manner. Since the company is dependent mainly on external borrowings for the said project, the leverage ratios are expected to deteriorate considerably over the medium term.

SMERA believes that any time or cost overruns in the project would significantly impact the business and financial risk profile of the company.

- **Customer concentration risk**

The firm caters to reputed clientele including Larsen & Turbo Limited, Thane Municipal Corporation, and

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Municipal Corporation of Greater Mumbai. However, significant order amounting to Rs.38.30 crore comes from L&T Construction thus exposing the firm to high customer concentration risk. The firm's ability to diversify its revenue in the medium term would be a key rating sensitivity.

- **Small scale of operations and low net worth**

The scale of operations is small with operating income of Rs.2.98 crore in FY2017 as against Rs.1.50 crore in FY2016. Further, the operating revenue in FY2015 stood at Rs.0.50 crore. The net worth stood at a low of Rs.1.07 crore in FY2017 as against Rs.0.72 crore in FY2016. The firm's ability to infuse adequate capital to support debt led capital expenditure and maintain its financial risk profile will be a key rating sensitivity.

Analytical Approach

SMERA has considered the standalone financial and business risk profile of VUSL to arrive at the rating.

Outlook: Stable

SMERA believes that VUSL will maintain a 'Stable' outlook over the medium term owing to its experienced management. The outlook may be revised to 'Positive' in case the group registers healthy growth in revenue while maintaining sustainable financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of decline in revenue, deterioration in the financial risk profile or delay in project implementation.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	2.98	1.50	0.56
EBITDA	Rs. Cr.	0.49	0.25	0.16
PAT	Rs. Cr.	0.12	0.07	0.02
EBITDA Margin	(%)	16.43	16.61	27.79
PAT Margin	(%)	3.89	4.47	3.99
ROCE	(%)	13.47	12.48	10.67
Total Debt/Tangible Net Worth	Times	0.94	0.61	1.47
PBDIT/Interest	Times	4.82	3.94	5.55
Total Debt/PBDIT	Times	2.05	1.73	3.61
Gross Current Assets (Days)	Days	88	141	112

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smerra.in/criteria-default.htm>
- Infrastructure Entities - <https://www.smerra.in/criteria-infra.htm>
- Entities In Services Sector - <https://www.smerra.in/criteria-services.htm>
- Financial Ratios And Adjustments - <https://www.smerra.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.smerra.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. Crore)	Ratings/Outlook
Term loans	Not Applicable	Not Applicable	Not Applicable	5.96	SMERA BB- / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	2.00	SMERA A4+
Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.00	SMERA BB- / Stable
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.04	SMERA BB- / Stable

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ABOUT SMERA

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