

Press Release

VIBRANT CONSTRUCTION PRIVATE LIMITED

December 30, 2019



Rating Assigned

Total Bank Facilities Rated*	Rs. 18.00 Cr.
Long Term Rating	ACUITE BB / Outlook: Stable
Short Term Rating	ACUITE A4+

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BB**' (**read as ACUITE double B**) and short-term rating of '**ACUITE A4+**' (**read as ACUITE A four plus**) on the Rs. 18.00 crore bank facilities of VIBRANT CONSTRUCTIONS PRIVATE LIMITED (VCPL). The outlook is '**Stable**'.

Incorporated in 2003, Vibrant Construction Private Limited is engaged in civil construction business. The company is engaged in construction of roads, bridges, building, electrical sub-station, water supply system, to name a few for government contracts. The day to day operations are managed by its directors, Mr. Ajaykumar Prakashchandra Agrawal, Mr. Ketul Ajaykumar Agrawal, Mr. Dhairyा Ajaykumar Agrawal and Mrs. Sunitaben Ajaykumar Agrawal. The company has an unexecuted order book of Rs.153.32 crore which is to be executed by FY2020.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of VCPL to arrive at the rating.

Key Rating Drivers

Strengths

• Experienced management

VCPL commenced operations from 2003. The company is promoted by Ms. Sunitaben Ajaykumar Agrawal, Mr. Ajaykumar Prakashchandra Agrawal, Mr. Ketul Ajaykumar Agrawal and Mr. Dhairyा Ajaykumar Agrawal who has experience of over a decade in civil construction industry. The extensive experience has enabled the company forge healthy relationships with suppliers. The company caters to reputed clientele such as Hindustan Petroleum Corporation Limited (HPCL), Indian Oil Corporation (IOC), Engineers India Limited (EIL), Haryana Vidyut Prasaran Nigam Limited (HVPNL), Ahmedabad Municipal Corporation, to name a few. Further, the experience of the management has also envisaged in healthy order book position of ~Rs.153.32 crore giving a revenue visibility in near to medium term.

Acuité believes that the company will continue to benefit from its experienced management and established relationships with customers.

• Moderate financial risk profile

The financial risk profile is moderate marked by modest net worth and high debt protection measures and low gearing. The net worth of the company is modest at Rs.9.28 crore as on 31 March 2019 as against Rs.5.43 crore as on 31 March 2018. The gearing (debt to equity) of the company improved to 0.94 times as on March 31 2019 from 1.10 times as on March 31 2018. Total debt of Rs.8.69 crore consists of term loan of Rs.7.45 crore and unsecured loans from relatives of directors Rs.1.24 crore as on 31 March 2019. Total outside Liabilities/Tangible Net Worth (TOL/TNW) improved to 4.65 times as on 31 March 2019 from 6.03 times as on 31 March 2018. Further, Interest Coverage Ratio (ICR) improved to 3.13 times in FY2019 from 2.91 times in FY2018. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.42 times as on 31 March 2019 as against 0.56 times as on 31 March 2018. Debt Service Coverage Ratio (DSCR) stood at 1.82 times in FY2019 as against 1.81 times in FY2018. Acuité believes the financial risk profile of the company will remain moderate in near to medium term on back of moderate net cash accruals.

Weaknesses

- **Decline in scale of operations**

The company has reported decline in revenue marked by operating income of Rs.69.10 crore in FY2019 as against operating income of Rs.72.45 crore in FY2018. However, it had increased from Rs.27.40 crore in FY2017.

Acuité believes that the scale of operation is expected to improve in near term at the back of order book of Rs.153.32 crore which is to be executed by FY2020-21.

- **Intensive working capital management**

The working capital of VCPL is intensive in nature marked by high Gross Current Asset (GCA) days of 240 for FY2019 as against 161 in the previous year. This is on account of increase in debtor days which stood at 76 for FY2019 from 66 for FY2018. However, the reliance on working capital facility is high, its utilization is around ~90 percent on an average for last six months ending September, 2019. Acuité believes the ability of the company to efficiently manage its working capital requirements will remain the key rating sensitivity.

- **Competitive and fragmented industry along with tender based business**

The company is engaged in civil construction business. The particular sector is marked by the presence of various mid to big size players. The firm might face intense competition from the other players in the sectors. Risk become more pronounced as tendering is based on minimum amount of bidding of contracts. However, this risk is mitigated to an extent as management operating in this industry for last two decades.

Major business is bagged through open tenders. Hence the revenue earned is directly dependent upon the quantum of contracts bagged and executed during the year. Risk become more pronounced as tendering is based on minimum amount of bidding of contracts. Firm has to do tendering on competitive prices; this may affect the profitability of the firm.

Rating Sensitivity

- Significant improvement in revenues and margins
- Deterioration in working capital management leading to higher reliance on external borrowing.

Material Covenants

None.

Liquidity Position: Stretched

VCPL has stretched liquidity marked by moderate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.3.64 crore in FY2019 as against Rs.3.33 crore in FY2018 and Rs.1.22 crore in FY2017, while its maturing debt obligation was around Rs.2.43 crore for FY2019. The company's working capital operations are intensive as marked by high gross current asset (GCA) days of 240 in FY2019. Further, the reliance on working capital borrowings is high, the cash credit limit in the company remains utilized at ~90 percent during the last six months ending September, 2019. The company maintains unencumbered cash and bank balances of Rs.2.75 crore as on March 31, 2019. The current ratio of the company stands at 1.31 times as on March 31, 2019.

Outlook: Stable

Acuité believes that the company will maintain 'Stable' outlook over the medium term on back of experience of its management. The outlook may be revised to 'Positive' if there is substantial and sustained improvement in company's operating income or profitability, while maintaining its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of significant deterioration in working capital leading to higher reliance on external borrowings.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	69.10	72.45
PAT	Rs. Cr.	3.36	3.05
PAT Margin	(%)	4.86	4.21
Total Debt/Tangible Net Worth	Times	0.94	1.10
PBDIT/Interest	Times	3.13	2.91

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Infrastructure sector - <https://www.acuite.in/view-rating-criteria-51.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

None.

*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	2.00*	ACUITE BB/Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	16.00	ACUITE A4+ (Assigned)

*Inland LC/BG sublimit of CC of Rs.2.00 crore.

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About Acuité Ratings & Research:

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