

Press Release

VIBRANT CONSTRUCTION PRIVATE LIMITED

February 05, 2021



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 18.00 Cr.
Long Term Rating	ACUITE BB/Stable (Reaffirmed)
Short Term Rating	ACUITE A4+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long term rating of '**ACUITE BB**' (read as **ACUITE double B**) and the short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs.18.00 crore bank facilities of Vibrant Construction Private Limited (VCPL). The outlook is '**Stable**'.

About the Company

Incorporated in 2003, Vibrant Construction Private Limited is an Ahmedabad based company engaged in civil construction business. It engages in only government contracts of construction of roads, bridges, building, electrical sub-station, water supply system, to name a few. The day to day operations are managed by its directors, Mr. Ajaykumar Prakashchandra Agrawal, Mr. Ketul Ajaykumar Agrawal, Mr. Dhairyajaykumar Agrawal and Mrs. Sunitaben Ajaykumar Agrawal. Company has an unexecuted order book of Rs.171.20 crore which is to be executed by FY2022-23.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced management**

VCPL commenced operations from 2003. The company is promoted by its directors, Sunitaben Ajaykumar Agrawal, Ajaykumar Prakashchandra Agrawal, Ketul Ajaykumar Agrawal and Dhairyajaykumar Agrawal who has an experience of over a decade in civil construction industry. The extensive experience has enabled the company to forge healthy relationships with customers and suppliers. It has reputed clientele which includes 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.

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

- **Increase in profitability**

The operating margins of the company increased to 13.88 percent in FY2020 from 10.03 percent in FY2019. The growth in profitability is majorly on account of the reduction in the labour contract charges. Further, the profit after tax (PAT) margin stood at 4.78 per cent in FY2020 as against 4.86 per cent in FY2019.

Acuité believes that the profitability of the company will remain muted for FY2021 because of the COVID19 impact which has impacted the company to bear additional expenses related to the labour welfare.

Weaknesses

• Deterioration in scale of operations

The company has reported decline in revenue marked by operating income of Rs.42.76 crore in FY2020 from operating income of Rs. 69.10 crore in FY2019. This is majorly because of delay in payment from government entities and delay in execution in few projects due to delay in approvals. Further, it stood at around Rs.34.67 crore for the period April to December, 2020.

Acuité believes that the scale of operations will remain muted due to COVID19 impact which has impacted the execution of operations due to nation-wide lockdown and labour issues. Further, it has also delayed the floating of new tenders from government entities.

• Intensive working capital management

The working capital of VCPL is intensive in nature marked by high Gross Current Asset (GCA) days of 439 for FY2020 as against 240 in the previous year. This is on account of increase in debtor days which stood at 149 for FY2020 as against 76 for FY2019, further current assets of the company also increased to Rs.23.64 crore in FY2020 from Rs.18.77 crore in previous year. Inventory days also increased to 100 in FY2020 from 43 days in FY2019. Further, the reliance on working capital facility is high, its utilization is around ~85 percent on an average for last 6 months ending December, 2020.

Acuité believes the ability of the company to efficiently manage its working capital requirements will remain the key rating sensitivity.

• Tender based business along with competitive and fragmented industry

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. Company has to do tendering on competitive prices; this may affect the profitability of the firm.

Moreover, the infrastructure sector is marked by the presence of various mid to big size players. It 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 the last two decades.

Liquidity Position: Adequate

VCPL has adequate liquidity marked by moderate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.2.89 crore in FY2020 as against Rs.3.64 crore in FY2019, while its maturing debt obligation was around Rs.2.43 crore and Rs.0.84 crore for the same period. The company's working capital operations are intensive as marked by high gross current asset (GCA) days of 439 in FY2020. Further, the reliance on working capital borrowings is high, the cash credit limit in the company remains utilized at ~85 percent during the last 6 months' period ended December, 2020. The company maintains unencumbered cash and bank balances of Rs.0.28 crore as on March 31, 2020. The current ratio of the company stands at 1.37 times as on March 31, 2020.

Acuité believes that the liquidity position will remain adequate due to muted scale of operations and profitability due to covid19 impact.

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 weakening of its capital structure and debt protection metrics.

Rating Sensitivities

- Significant improvement in scale of operations along with profitability.
- Stretch in working capital cycle and deterioration in liquidity position.

Material Covenants

None

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Crore	42.76	69.10
Profit after tax (PAT)	Rs. Crore	2.04	3.36
PAT margin	%	4.78	4.86
Total debt / Tangible Net worth	Times	1.01	0.94
PBDIT / Interest	Times	2.32	3.13

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

CRISIL, vide its press release dated October 27, 2020 had denoted the rating of Vibrant Construction Private Limited as 'CRISIL B+/Stable/A4; ISSUER NOT COOPERATING' on account of lack of adequate information required for monitoring of ratings.

India Ratings and Research Limited, vide its press release dated May 15, 2019 had denoted the rating of Vibrant Construction Private Limited as 'IND BB/A4+; ISSUER NOT COOPERATING' on account of lack of adequate information required for monitoring of ratings.

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Infrastructure sector - <https://www.acuite.in/view-rating-criteria-51.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
30-Dec-2019	Cash Credit	Long Term	2.00	ACUITE BB/Stable (Assigned)
	Bank Guarantee	Short Term	16.00	ACUITE A4+ (Assigned)

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

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

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About Acuité Ratings & Research:

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