

Press Release

VM and Co

May 26, 2020



Rating Assigned

| | |
|-------------------------------------|-------------------------------|
| Total Bank Facilities Rated* | Rs.45.00 Cr. |
| Long Term Rating | ACUITE B/Stable (Assigned) |
| Short Term Rating | ACUITE A4 (Assigned) |

* Refer Annexure for details

Rating Rationale

Acuité has assigned long term rating of '**ACUITE B**' (**read as ACUITE single B**) and short term rating of '**ACUITE A4**' (**read as ACUITE A four**) on the Rs.45.00 crore bank facilities of VM and Co.

Tamil Nadu based V M and Co. (VMC) was established as a proprietorship concern in 1986 by Mr. Veluchamy, later in 2011 it was converted into partnership firm. Presently, the firm is managed by Mr. V. Manoharan, managing partner. The firm is engaged in construction of Roadways for central and state government entities, National Highway Authority of India (NHAI) and Tamil Nadu Public Works Department.

Analytical Approach

Acuité has considered a standalone business and financial risk profile VM and Co. to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management and long track record of operations**

Tamil Nadu based VMC is engaged in construction of roadways for central and state government projects. The firm was established in the year 1986 by Mr. Veluchamy. The firm is managed by Mr. V. Manoharan, who is the Managing Partner, has an experience of more than three decades in the construction industry. Further, the firm has achieved the revenue of Rs.104.65 crore in FY2019 as against Rs.48.10 crore in FY2018. Further, the firm has achieved revenues of Rs.116.93 crore in 11MFY2020. The firm has an order book position of Rs.204.00 crore as on March 31, 2020. Acuité believes that VMC's long track record of operations is expected to support future growth trajectory of the firm couple with experienced management.

- **Moderate financial risk profile**

VMC's financial risk profile is moderate marked by moderate net worth, healthy gearing and comfortable total outside liabilities to tangible net worth (TOL/TNW) and healthy debt protection metrics. The net worth is moderate at Rs.27.76 crore as on March 31, 2019 as compared to Rs.15.59 crore as on March 31, 2018. Further, the gearing (debt-equity) stood at 0.80 times as on March 31, 2019 as against 1.63 times as on March 31, 2018. TOL/TNW stood comfortable at 1.41 times as on March 31, 2019. Its debt protection metrics are healthy marked by interest coverage ratio (ICR) and net cash accruals to total debt (NCA/TD) at 6.28 times and 0.29 times in FY2019. The firm reported cash accruals of Rs.6.50 crore against repayment obligation of Rs.3.67 Crore in FY19. The cash accruals are estimated to remain around Rs.8.10 – 9.00 crores during 2020-22, while its repayment obligations are in the range of Rs.3.67 Crore which gives adequate comfort for the incremental working capital requirements.

Acuité believes that the financial risk profile of the firm is expected to be at similar levels over the medium term supported by moderate cash accruals.

Weaknesses

- **Working capital intensive nature of operations**

VMC's operations are working capital intensive marked by Gross Current Assets (GCA) of 148 days as on March 31, 2019 as against 199 days as on March 31, 2018. This is on account of mobilisation advance. However, Acuité believes with increasing scale of operations, any further deterioration in working capital thereby leading to higher dependence on external bank borrowings will entail a negative bias towards the rating.

- **Highly competitive and fragmented industry with tender based nature of business**

VM and Co. operates in highly competitive and fragmented industry with presence of several players and tender nature of business. Winning of the contracts in tender-based model is subject to various parameters including importance of the project for the principal to ensure timely and regular payments. The firm also undertakes contracts of government projects which are awarded through the tender based system. This exposes the firm towards risk associated with the tender-based business, which is characterized by intense competition. Any event such as a significant slowdown in receipt of orders, deferment of projects by the counterparty or delay in realization of receivables from customers will have a bearing on the operating cash flows and credit profile of the firm.

Rating Sensitivity factors:

- Significant Improvement in revenues
- Any further deterioration in working capital

Material Covenants: None

Liquidity Position: Stretched

VMC's liquidity is stretched marked by high GCA days at 148 days for FY2019. Further the firm generated cash accruals of Rs.6.50 crore in FY2019 as against repayment of Rs.3.67 crore in FY2019. The cash accruals of the firm are estimated to remain around Rs.8.10 crore - 9.00 crore through FY20-22 against repayment in the range of Rs.3.67 crore to Rs.1.04 crore during the said period. The firm's operations are highly working capital intensive as marked by gross current asset (GCA) days of 148 in FY2019. The firm has almost fully utilized their working capital limits over the past six months through March 2020. The firm's current ratio stood at 1.52 times as on March 31, 2019.

Acuité believes that the liquidity of the firm is likely to remain adequate over the medium term on account of improvement in net cash accruals.

Outlook: Stable

Acuité believes that VM and Co. will maintain a 'Stable' outlook over the medium term backed by its experienced management and adequate revenue visibility. The outlook may be revised to 'Positive' in case of significant improvement in its revenues, while maintaining the profitability margins. Conversely, the outlook may be revised to 'Negative' in case of any further stretch in its working capital management or fail to secure additional sanction of its non-fund based facilities leading to firm failing in supporting order book and deteriorating liquidity.

About the Rated Entity - Key Financials

| | Unit | FY19 (Actual) | FY18 (Actual) |
|-------------------------------|---------|---------------|---------------|
| Operating Income | Rs. Cr. | 104.65 | 48.10 |
| PAT | Rs. Cr. | 3.10 | 1.55 |
| PAT Margin | (%) | 2.96 | 3.21 |
| Total Debt/Tangible Net Worth | Times | 0.80 | 1.63 |
| PBDIT/Interest | Times | 6.28 | 3.93 |

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

Any other information

None

Applicable Criteria

- Default Recognition – <https://www.acuite.in/view-rating-criteria-17.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-14.htm>
- Application of 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 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 |
|-------------------------|------------------|----------------|----------------|-----------------------------|----------------------------|
| Proposed Over Draft | Not Applicable | Not Applicable | Not Applicable | 10.00 | ACUITE B/Stable (Assigned) |
| Proposed Bank Guarantee | Not Applicable | Not Applicable | Not Applicable | 35.00 | ACUITE A4 (Assigned) |

Contacts

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About Acuité Ratings & Research:

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