

Press Release

V U B Engineering Private Limited

March 09, 2022



Rating Assigned

| Product | Quantum (Rs. Cr) | Long Term Rating | Short Term Rating |
|---------------------------------------|---------------------|--------------------------------|-----------------------|
| Bank Loan Ratings | 35.00 | ACUITE BBB Stable Assigned | - |
| Bank Loan Ratings | 80.00 | - | ACUITE A3+ Assigned |
| Total Outstanding Quantum (Rs. Cr) | 115.00 | - | - |
| Total Withdrawn Quantum (Rs. Cr) | 0.00 | - | - |

Rating Rationale

Acuite has assigned a long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) and a short-term rating of '**ACUITE A3+**' (read as **ACUITE A three plus**) to the Rs.115.00 crore bank facilities of V U B Engineering Private Limited (VUBEPL). The outlook is '**Stable**'.

About the Company

VUBEPL incorporated in the year 2005 at Mumbai is engaged in civil construction work. It is promoted by Mr. Pradeep N. Thakkar and Mr. Chintan P. Thakkar. VUBEPL undertakes projects such as roads, dams, bridges, canals, water treatment plants, water reservoirs, M. S. Pipelines and effluent pipelines. The company is registered as a Civil Contractor (Class IA) with Maharashtra State Public Work Department (MPWD) whereby it can bid for any contract without any limit and also as Class I with various other state departments - Maharashtra Industrial Development Corporation (MIDC), Navi Mumbai Municipal Corporation (NMMC), City and Industrial Development Corporation of Maharashtra Limited (CIDCO), Pune Municipal Corporation (PMC), Rajasthan State Water Resources Department (RWRD), and Karnataka Public Works Department (KPWD).

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of VUBEPL for arriving at the rating.

Key Rating Drivers

Strengths

Experienced Management and established track record of operations in the civil construction segment

VUBEPL established in the year 2005 is engaged in civil construction works by undertaking irrigation, water and effluent treatment plant projects for various state

government authorities of Maharashtra, Rajasthan and Jharkhand. The company is managed by Mr. Pradeep N. Thakkar (Chairman), is a civil engineer with 40 years of experience in civil construction work. While the day to day operations are managed by his son Mr. Chintan P. Thakkar (Managing Director) having 19 years of experience and Mr. Prabhakar M. Sarkate (Executive Director) having 28 years of experience in civil construction work. The promoters experience has helped the company to establish long relationships with various Government departments, which has ensured a steady order flow.

Acuité believes VUBEPL will continue to benefit from its established presence and experienced management over the medium term.

Healthy Financial Risk Profile

VUBEPL has healthy financial risk profile marked by low gearing and healthy debt protection metrics. The net worth stood at Rs.72.10 crore as on 31 March, 2021 as against Rs.65.86 crore on 31 March, 2020. The company has followed a conservative financial policy in the past, the same is reflected through its gearing levels of 0.69 times as on March 31, 2021. However, this excludes the non-fund based limits. Total outside liabilities to tangible net worth (TOL/TNW) stood at 2.50 times as on 31 March 2021 as against 2.47 times as on 31 March 2020. On the other hand, the company generated cash accruals of Rs.7.42 crore in FY2021 as against Rs.8.61 crore in FY2020. The profitability levels coupled with debt levels has led to healthy debt protection measures. The NCA/TD ratio remained stable at 0.15 times in FY2021 as well as in FY2020. ICR stood at 2.50 times in FY2021 as against 2.12 times in FY2020. ICR and gearing for FY2022-23 and FY2023-24 is expected to be in the range of 2.07 - 2.73 times and 0.59 - 0.51 times respectively.

VUBEPL's ability to maintain its financial risk profile will remain key rating sensitivity factor.

Healthy order book position providing revenue visibility over the medium term

VUBEPL has reported revenue of Rs.201 Cr in FY2021 against Rs.208 Cr. in FY2020. This marginal de-growth primarily on account halting execution entirely for the month of April 2020 on account of COVID 19 induced lockdowns. The company undertakes irrigation, water and effluent treatment plant projects for Government authorities. The profitability is generally range bound between 8-10 percent. However, it declined to some extent in FY2021. It stood at 6.86 percent in FY2021 against 8.70 percent in FY2020. This is expected to remain in the similar range going forward as the reimbursement of any escalated costs generally takes place in final quarter. Further, for 9M FY2022 the company has reported revenue of Rs.96 Cr. against Rs.60 Cr. for 9M FY2021 and is expected to show significant growth by year end on account of the healthy unexecuted order book. Currently the company has an unexecuted order book ~Rs.550 Cr. which is expected to be executed over the next 2-3 years giving revenue visibility over the medium term. However out of the total order book top 5 orders account for almost 50 percent of revenue. Any delays in these key orders is expected to have an adverse impact on VUB's profitability.

Acuité believes VUBEPL's scale up of operations with timely execution of order without delay will remain a key rating sensitivity.

Weaknesses

Working capital intensive nature of operations

VUBEPL's operations are working capital intensive marked by gross current asset (GCA) days of around 286 days in FY2021 as against 240 days in FY2020. This is primarily driven by receivable days of 132 days in FY2021 and 85 days in FY2020. It also includes security deposits and retention money that the company has to maintain with government authorities it contracts for. The increase in receivable days is also driven by higher order execution towards the year end in FY2021. For Q4 FY2021 it executed orders of Rs.137 Cr. against Rs.108 Cr. in Q4 FY2020. Although in the current year as on 9M FY2022, the debtors position of the company has improved from an outstanding of Rs.75.27 Cr as on 31 March 2021 to Rs.30.71 Cr as on 31 December 2021 (Provisional).

Acuité believes VUBEPL's ability to further improve its working capital cycle will be a key rating

sensitivity.

Customers concentration risk

VUBEPL is exposed to significant customer concentration risk as it majorly works for the Government of Maharashtra and Rajasthan. Although they have made a foray into undertaking project for Government of Jharkhand in the current year FY2022. This makes the company highly dependent on three clients for its revenue. VUBEPL is susceptible to any volatility in financial and operational performance of its clients. Any adverse impact in performance or lower order flow from these clients is likely to have an adverse impact on the operating and financial risk profile of the company.

Risk associated with tender based nature of order

The revenues of VUBEPL are generated through tender based orders floated by the state government departments with the increasing competition in the industry.

Rating Sensitivities

- Scale up of operations with timely execution of orders without any significant delays
- Further elongation in working capital cycle leading to deterioration in liquidity position

Material covenants

None

Liquidity Position - Adequate

VUBEPL has adequate liquidity marked by adequate net cash accruals to its maturing debt obligations and high unutilised working capital limits. The company generated cash accruals of Rs.7.42 crore for FY2021, with debt repayment obligations of ~Rs.0.65 crore for the same period. The cash accruals of the company are estimated to remain in the range of around Rs.7.78 crore to Rs.12.10 crore during FY2022-24 against debt repayment obligations of Rs.0.95-1.55 crore in the same period. The company's operations are moderately working capital intensive, marked by GCA of 286 days for FY2021. The average bank limit utilization over the past six months ended Nov 2021 remained low at around ~34.80 percent. The current ratio stood at 1.22 times as on 31 March, 2021.

Outlook: Stable

Acuité believes that the outlook on VUBEPL's rated facilities will remain stable over the medium term on account of its promoter's extensive experience, established operational track record and healthy financial risk profile. The outlook may be revised to 'Positive' in case of sustained growth in revenue and profitability. Conversely, the outlook may be revised to 'Negative' in case of lower than expected growth in revenue or deterioration in the financial and liquidity profile most likely as a result of higher than envisaged working capital requirements.

Key Financials

| Particulars | Unit | FY 21 (Actual) | FY 20 (Actual) |
|-------------------------------|---------|----------------|----------------|
| Operating Income | Rs. Cr. | 201.43 | 208.35 |
| PAT | Rs. Cr. | 6.24 | 7.25 |
| PAT Margin | (%) | 3.10 | 3.48 |
| Total Debt/Tangible Net Worth | Times | 0.69 | 0.86 |
| PBDIT/Interest | Times | 2.50 | 2.12 |

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

Not Applicable

Any other information

None

Applicable Criteria

- Infrastructure Sector: <https://www.acuite.in/view-rating-criteria-51.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Application Of 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:

Not Applicable

Annexure - Details of instruments rated

| Lender's Name | ISIN | Facilities | Date Of Issuance | Coupon Rate | Maturity Date | Quantum (Rs. Cr.) | Rating |
|---------------------|----------------|------------------------------------|------------------|----------------|----------------|-------------------|--------------------------------|
| Indian Bank | Not Applicable | Bank Guarantee/Letter of Guarantee | Not Applicable | Not Applicable | Not Applicable | 10.00 | ACUITE A3+ Assigned |
| Bank of Baroda | Not Applicable | Bank Guarantee/Letter of Guarantee | Not Applicable | Not Applicable | Not Applicable | 35.00 | ACUITE A3+ Assigned |
| Bank of Maharashtra | Not Applicable | Bank Guarantee/Letter of Guarantee | Not Applicable | Not Applicable | Not Applicable | 15.00 | ACUITE A3+ Assigned |
| Indian Bank | Not Applicable | Cash Credit | Not Applicable | Not Applicable | Not Applicable | 10.00 | ACUITE BBB Stable Assigned |
| Bank of Baroda | Not Applicable | Cash Credit | Not Applicable | Not Applicable | Not Applicable | 20.00 | ACUITE BBB Stable Assigned |
| Bank of Maharashtra | Not Applicable | Cash Credit | Not Applicable | Not Applicable | Not Applicable | 5.00 | ACUITE BBB Stable Assigned |
| Bank of Maharashtra | Not Applicable | Letter of Credit | Not Applicable | Not Applicable | Not Applicable | 5.00 | ACUITE A3+ Assigned |
| Bank of Baroda | Not Applicable | Letter of Credit | Not Applicable | Not Applicable | Not Applicable | 10.00 | ACUITE A3+ Assigned |
| Indian Bank | Not Applicable | Letter of Credit | Not Applicable | Not Applicable | Not Applicable | 5.00 | ACUITE A3+ Assigned |

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About Acuité Ratings & Research

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,850 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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