

Press Release

V U B Engineering Private Limited

March 31, 2023

Rating Reaffirmed



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

Rating Rationale

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

Rationale for rating reaffirmation

The rating reaffirmation takes into account the stable operating and financial performance of VUBEPL marked by stable operating income, range bound operating margins and moderate financial risk profile. The operating income of the company recorded a slight decline in FY2022 as it stood at Rs. 197.35 Cr as against Rs.201.43 Cr in FY2021. In 9M FY2023 the company has generated revenue of Rs. 106.81 Cr and is expected to close the year above Rs.270 Cr in FY2023. The company has a track record of booking majority of its revenue in the last quarter of the financial year. The operating margins of the company ranged between 6.75-9.05 percent for the three-year period ended FY2022. The financial risk profile continues to remain moderate marked by low gearing and healthy debt protection metrics. The rating is however constrained by the high working capital-intensive nature of operations marked by higher GCA days and customer concentration risks. Going forward, ability of the company to improve its scale of operations while maintaining its profitability margins and capital structure and maintaining an efficient working capital cycle will remain a key rating sensitivity factor.

About the Company

VUBEPL incorporated in 2005 is a Mumbai based company engaged in civil construction work. It is promoted by Mr. Pradeep N. Thakkar and Mr. Chintan P. Thakkar. It 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

Acuité 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 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 promoted by Mr. Pradeep N. Thakkar (Chairman), who is a qualified civil engineer with four decades of experience in civil construction work. He is assisted by his son Mr. Chintan P. Thakkar (Managing Director) having two decades of experience and Mr. Prabhakar M. Sarkate (Executive Director) having nearly three decades of experience in civil construction work. The promoter and directors are being supported by its team of experienced professionals in managing day to day operations of VUBEPL. The extensive experience of the management has enabled VUBEPL to establish long relationships with various Government departments which has ensured a steady order flow.

Acuité believes VUBEPL will continue to benefit from its experienced management and established track record of operations in the civil construction segment.

Moderate financial risk profile

Financial risk profile of VUBEPL is moderate marked by moderate network, low gearing and moderate debt protection metrics. The network of the company has improved to Rs.78 Cr as on 31 March, 2022 as against Rs.72 Cr as on 31 March, 2021 on account of moderate accretion to reserves. The gearing (debt-equity) stood improved at 0.61 times as on 31 March, 2022 as against 0.69 times as on 31 March, 2021. The total debt of Rs.47 Cr as on 31 March, 2022 consists of long term bank borrowings of Rs.9 Cr, unsecured loans from directors of Rs.26 Cr and short term bank borrowings of Rs.12 Cr.

The interest coverage ratio stood at 2.51 times for FY2022 as against 2.50 times for FY2021 while the DSCR stood lower at 1.47 times for FY2022 as against 1.76 times for FY2021. The Net Cash Accruals to Total debt stood at 0.14 times for FY2022 as against 0.15 times for FY2021. The Total outside liabilities to Tangible net worth stood improved at 2.07 times for FY2022 as against 2.50 times for FY2021. The Debt to EBITDA stood improved at 2.88 times for FY2022 as against 3.02 times for FY2021.

Acuité believes that the financial risk profile of VUBEPL will remain moderate over the medium term due to its moderate debt levels vis-à-vis moderate tangible net worth and comfortable debt protection metrics.

Stable operating performance

VUBEPL reported revenues of Rs.197 Cr for FY2022 as against Rs.201 Cr in FY2021. The marginal de-growth is primarily on account of low sales realisation during the year caused by monsoon and some effect of covid induced restrictions which led to slowdown in execution of work orders at various sites especially during Q2 and Q3 of FY2022.

Despite of decline in the overall revenue, the operating margin of the company has increased to 9.04 percent in FY2022 as against 6.86 percent in FY2021 due to decrease in the construction cost and other site expenses during the year.

For the current year as on 9M FY2023, company has achieved revenue of Rs.107 Cr as against Rs.74 Cr as on 9M FY2022. The company has further generated revenue of Rs.163 Cr as of February 2023 and are expecting to generate revenue in the range of Rs.270 Cr to Rs.300 Cr by year end as majority of the billing against the pending and completed work orders gets realised during the month of March every year. Apart from this, the company also has an unexecuted order book ~Rs.1400 Cr. which is expected to be executed over the next 2-3

years which provides adequate revenue visibility over the medium term.

Acuité believes that VUBEPL will maintain a stable scale of operations over the medium term in view of the healthy orderbook.

Weaknesses

Working capital intensive nature of operations

The operations of VUBEPL are working capital intensive marked by its Gross Current Assets (GCA) days of 265 days for FY2022 which stood high albeit improved against 286 days for FY2021. This is on account of its inventory cycle which stood at 67 days for FY2022 as against 57 days for FY2021. The increase in the inventory cycle is majorly driven by work in progress at different sites and increase in the stock of raw materials for completing the work orders. This makes the company dependent on bank borrowings for working capital requirement. The average bank limit utilization for 6 months' period ended December 2022 stood at ~74 percent. Apart from this, the company's receivable cycle which though remains elongated, recorded an improvement in FY2022 as it stood at 84 days as against 132 days in FY2021 whereas the creditors stood high albeit improved at 275 days in FY2022 as against 388 days in FY2021.

Acuité believes that the ability of VUBEPL to improve and maintain an efficient working capital cycle over the medium term will remain a key rating sensitivity factor.

Customers concentration risk

VUBEPL is exposed to significant customer concentration risk as it majorly works for the Government of Maharashtra and Rajasthan. Although they had made a foray into undertaking project for Government of Jharkhand in the 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

- Ability to improve scale of operations while maintaining profitability margins and capital structure
- Ability to improve and maintain an efficient working capital cycle

Material covenants

None

Liquidity position - Adequate

VUBEPL has adequate liquidity position marked by sufficient net cash accruals (NCA) to its maturing debt obligations. The company generated cash accruals in the range of Rs.9 Cr to Rs.7 Cr during FY2020 to FY2022 against its repayment obligation in the range of Rs.1 Cr to Rs.2 Cr during the same period. The working capital operations of the company are intensive marked by its gross current asset (GCA) days of 265 days for FY2022 as against 286 days for FY2021 on account of increase in the inventory cycle during the same period. This makes the company dependent on bank borrowings for working capital requirement. The average bank limit utilization for 6 months' period ended December 2022 stood at ~74 percent. Current ratio stands at 1.64 times as on 31 March 2022. The company has maintained cash & bank balance of Rs.10 Cr in FY2022.

Acuité believes that the liquidity of VUBEPL is likely to remain adequate over the medium term on account of sufficient cash accruals against its maturing debt obligations.

Outlook: Stable

Acuité believes that VUBEPL will maintain 'Stable' outlook over the medium term on account of its experienced management and established track record of operations. The outlook may be revised to 'Positive' in case of significant and sustained growth in revenue and profitability while effectively managing its working capital cycle and keeping the debt levels moderate. 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.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	197.35	201.43
PAT	Rs. Cr.	5.79	6.24
PAT Margin	(%)	2.93	3.10
Total Debt/Tangible Net Worth	Times	0.61	0.69
PBDIT/Interest	Times	2.51	2.50

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

Brickwork Ratings vide its press release dated 12.12.2022, had downgraded the company to BWR BB-/A4 Stable;INC

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

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuité's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
09 Mar 2022	Cash Credit	Long Term	10.00	ACUITE BBB Stable (Assigned)
	Cash Credit	Long Term	20.00	ACUITE BBB Stable (Assigned)
	Letter of Credit	Short Term	5.00	ACUITE A3+ (Assigned)
	Letter of Credit	Short Term	10.00	ACUITE A3+ (Assigned)
	Letter of Credit	Short Term	5.00	ACUITE A3+ (Assigned)
	Bank Guarantee	Short Term	15.00	ACUITE A3+ (Assigned)
	Bank Guarantee	Short Term	10.00	ACUITE A3+ (Assigned)
	Bank Guarantee	Short Term	35.00	ACUITE A3+ (Assigned)
	Cash Credit	Long Term	5.00	ACUITE BBB Stable (Assigned)

Annexure - Details of instruments rated

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

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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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