

## Press Release

Vasant Construction Co India

April 17, 2023



## Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	3.50	ACUITE BB   Stable   Assigned	-
Bank Loan Ratings	11.50	-	ACUITE A4+   Assigned
Total Outstanding Quantum (Rs. Cr)	15.00	-	-

## Rating Rationale

Acuite has assigned the long-term rating of '**ACUITE BB**' (read as **ACUITE double B**) and short-term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) to the Rs.15.00 Cr. bank facilities of Vasant Construction Company India (VCCI). The outlook is '**Stable**'.

### Rationale for the rating

The rating reflects experience of the management, and established track record of operations in the construction business, healthy order book, average financial risk profile and adequate liquidity. The rating however is constrained by its moderate scale of operation, intense competition within the industry owing to low entry barrier, susceptibility of operating margin to volatility in input material prices and labour charges.

### About the Company

Maharashtra based Vasant Construction Co India (VCCI) was established in the year 2017 as a partnership concern. The firm is promoted by Mr. Vasantlal Malukchand Shah and Mrs. Manjulaben Vasantlal Shah. Vasant Construction Co India (VCCI) is engaged in the constructions of buildings and other construction activity; primarily in the state of Maharashtra, Madhya pradesh and Daman with orders from Government and Municipal corporations.

### Analytical Approach

Acuite has considered the standalone financial and business risk profiles of VCCI to arrive at the rating.

### Key Rating Drivers

#### Strengths

##### Steady business risk profile

The operating revenue of the firm improved to Rs 35.16 crore in FY 2022 as compared to Rs 19.59 crore in FY 2021; the revenue has increased YoY supported by its project execution. Firm has reported provisional revenue as on 31<sup>st</sup> December 2022 at Rs.23.77 crore. The high labour cost amid the economic slowdown and higher cost inventory amid pandemic resulted in volatile margins for FY20-FY22. The operating margin declined to 4.59 per cent in FY22 as

compared to 5.36 per cent in the previous year. The PAT margins marginally increased to 1.71 per cent as on FY22 as against 1.53 per cent for FY21. The RoCE levels for the firm improved to 10.58 per cent for FY22 as against 7.68 per cent for FY21. Though the firm's profitability is exposed to volatility in raw material prices as their prices are volatile in nature, it has an in-built price escalation clause for major raw materials (such as steel, cement, fuel and bitumen) in most of its contracts. Going forward, the improvement in profitability margins will remain a key rating sensitivity.

The firm has average order book position with unexecuted orders in hand for infrastructure projects worth around Rs. 38 crore which are to be executed in the upcoming year or two; thereby providing revenue visibility in the medium term. Majority of the firm's order book comprised of PWD, municipal corporations and other contracts in Maharashtra, Daman and Madhya Pradesh. Acuité believes that the firm will continue to sustain its order book position and maintain its business risk profile over the medium term.

### **Average financial risk profile**

The firm's moderate financial risk profile is marked by modest net worth, modest gearing and adequate debt protection metrics. The tangible net worth of the firm improved to Rs.7.08 crore as on March 31, 2022 from Rs.6.25 crore as on March 31, 2021. Gearing of the firm marginally improved to 1.35 as on March 31, 2022 as compared to 1.43 as on March 31, 2021. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 2.6 times as on 31<sup>st</sup> March, 2022 as against 2.58 times as on 31<sup>st</sup> March, 2021. The debt protection metrics of the firm is marked by adequate Interest Coverage Ratio at 1.63 times and Debt Service coverage ratio at 1.63 times as on 31<sup>st</sup> March, 2022. Net Cash Accruals/Total Debt (NCA/TD) stood low at 0.07 times as on 31<sup>st</sup> March, 2022. Acuité believes that going forward the financial risk profile of the firm will remain at the same level with no major debt funded capex plans.

### **Weaknesses**

#### **Working Capital Intensive nature of Operation**

The working capital management of the firm has improved marginally albeit high Gross Current Assets (GCA) of 227 days as on March 31, 2022 as against 349 days as on March 31, 2021. Moreover, the inventory period stood at 107 days as on 31<sup>st</sup> March, 2022, as compared to 121 days as on 31<sup>st</sup> March 2021. Going forward, Acuité believes that the working capital operations of the firm will remain at the same levels as evident from the high level of retention money over the medium term.

#### **Segmental and geographic concentration, along with susceptibility to risks related to intense competition in construction segment, and to tender-based operations**

Although the partnership has a presence of about 5 years in the industry, as almost all its sales are tender based, the revenue depends on the firm's ability to bid successfully for tenders. VCCI specialises in civil works related to construction of residential and commercial projects. The firm faces competition from large players, as well as many local and small unorganised players, adversely affecting the profitability. Nonetheless, the firm is bidding for new projects in existing geographies which is expected to mitigate the geographic concentration risk to some extent.

#### **Competitive and fragmented nature of industry**

With increased focus of the central government on the infrastructure sector, VCCI is expected to reap benefits over the medium term. However, most of its projects are tender-based and face intense competition, which may hence require it to bid aggressively to get contracts. Competition can intensify further due to the recent relaxation in bidding norms. Also, given the cyclical nature inherent in the construction industry, the ability to maintain profitability margin through operating efficiency becomes critical.

### **Rating Sensitivities**

Scaling up of operations while maintaining their profitability margin  
On average timely execution of orders

Sustenance of existing financial risk profile with healthy capital structure

### Material covenants

None

### Liquidity Position

#### Adequate

Liquidity is adequate, the net cash accruals stood at Rs. 0.69 crore as on March 31, 2022 against no debt repayment over the same period. The capital intensive nature implies high requirement of funds in business. As a result, the fund-based limit of Rs 3.5 crore remained highly utilized at ~82 per cent over the twelve months ended January, 2023. The cash and bank balances of the firm stood at Rs.0.30 crore as on March 31, 2022. The current ratio stood comfortable at 2.01 times as on March 31, 2022. Moreover, the working capital intensive management of the firm is marked by high Gross Current Assets (GCA) of 227 days in 31st March 2022 as compared to 349 days in 31st March 2021. Acuité believes that going forward the firm will face issues accelerating to maintain adequate liquidity position due to average accruals.

### Outlook: Stable

Acuité believes the firm's outlook will remain 'stable' over the medium term on account of its experienced management, steady business risk profile and average financial risk profile. The outlook may be revised to 'Positive' in case the company registers higher than expected growth in revenues while sustaining its operating margins. Conversely, the outlook may be revised to 'Negative' in case of further decline in revenues or stretch in working capital cycle leading to deterioration in the liquidity position of the firm.

### Other Factors affecting Rating

None

### Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	35.16	19.59
PAT	Rs. Cr.	0.60	0.30
PAT Margin	(%)	1.71	1.53
Total Debt/Tangible Net Worth	Times	1.35	1.43
PBDIT/Interest	Times	1.63	1.44

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

Not Applicable

### 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>
- 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. Acuite'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](http://www.acuite.in).

**Rating History:**  
Not Applicable

**Annexure - Details of instruments rated**

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Abhyudaya Cooperative Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	11.50	ACUITE A4+   Assigned
Abhyudaya Cooperative Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	3.50	ACUITE BB   Stable   Assigned

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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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