



Press Release
Vasant Construction Co India
July 10, 2024
Rating Reaffirmed

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

Rating Rationale

Acuite has reaffirmed 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 Co India (VCCI). The outlook is '**Stable**'.

Rationale for reaffirmation

The rating reflects the 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 Dadra Nagar Haveli with orders from Government and Municipal corporations.

Unsupported Rating

Not Applicable

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 slightly to Rs 38.37 crore in FY 2024(Prov) as compared to Rs 36.66 crore in FY 2023; the revenue has increased year-on-year supported by its project execution. The higher cost of inventory (Work in progress) resulted in volatility in margins for FY2024(Prov). The operating margin declined to 3.86 percent in FY2024(Prov) as compared to 4.04 percent in the previous year. The PAT margins marginally increased to 1.92

percent as on FY2024(Prov) as against 1.80 percent for FY2023. The RoCE levels for the firm remained largely in line at 9.37 percent for FY2024(Prov) as against 9.44 percent for FY2023. 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. 35.82 crore which are to be executed in the upcoming years 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, Dadra Nagar Haveli 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 financial risk profile is average marked by modest net worth, modest gearing and adequate debt protection metrics. The tangible net worth of the firm improved to Rs.8.24 crore as on March 31, 2024(Prov) from Rs.7.50 crore as on March 31, 2023. Gearing of the firm marginally improved to 0.94 as on March 31, 2024(Prov) as compared to 1.18 as on March 31, 2023. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.79 times as on 31st March, 2024(Prov) as against 2.16 times as on 31st March, 2023. The debt protection metrics of the firm is marked by comfortable Interest Coverage Ratio at 2.06 times and Debt Service coverage ratio at 2.03 times as on 31st March, 2024(Prov). Net Cash Accruals/Total Debt (NCA/TD) stood low at 0.11 times as on 31st March, 2024(Prov). 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 declined marginally albeit high Gross Current Assets (GCA) of 179 days as on March 31, 2024(Prov) as against 197 days as on March 31, 2023. The GCA days are led by receivable days of 79 days as on March 31, 2024(Prov) as compared to 80 days as on March 31, 2023. The inventory days stood at 88 days as on 31st March, 2024(Prov), as compared to 101 days as on 31st March 2023. The creditor days stood at 111 days as on March 31, 2024(Prov) as compared to 169 days as on March 31, 2023. 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.

Intense competition within the industry owing to low entry barrier

Although the partnership has a presence of about 7 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 specializes 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 unorganized players, adversely affecting profitability.

Susceptibility of margins to volatility in input material prices and labour charges

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. Also, given the cyclicity 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
- Improvement in existing financial risk profile due to capital structure

Liquidity Position **Adequate**

Liquidity is adequate, the net cash accruals stood at Rs. 0.82 crore as on March 31, 2024(Prov) against Rs.0.01 crore debt repayment over the same period. The working 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 85.45 percent over the six months ended April, 2024. The cash and bank balances of the firm stood at Rs.0.04 crore as on March 31, 2024(Prov). The current ratio stood comfortable at 2.24 times as on March 31, 2024(Prov). Moreover, the working capital intensive management of the firm is marked by high Gross Current Assets (GCA) of 179 days in 31st March 2024(Prov) as compared to 197 days in 31st March 2023. 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 firm 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 24 (Provisional)	FY 23 (Actual)
Operating Income	Rs. Cr.	38.37	36.66
PAT	Rs. Cr.	0.74	0.66
PAT Margin	(%)	1.92	1.80
Total Debt/Tangible Net Worth	Times	0.94	1.18
PBDIT/Interest	Times	2.06	1.83

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, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorization 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
17 Apr 2023	Cash Credit	Long Term	3.50	ACUITE BB Stable (Assigned)
	Bank Guarantee (BLR)	Short Term	11.50	ACUITE A4+ (Assigned)

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 avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	11.50	ACUITE A4+ Reaffirmed
Abhyudaya Cooperative Bank	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	3.50	ACUITE BB Stable 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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