Vallabh Corporation

May 04, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings[1]	Rating Action
Long Term Bank Facilities	3.25	CARE B; Stable; ISSUER NOT COOPERATING* (Single B; Outlook: Stable ISSUER NOT COOPERATING*)	Rating continues to remain under ISSUER NOT COOPERATING category and Revised from CARE B+; Stable; (Single B Plus; Outlook: Stable)
Short Term Bank Facilities	3.50	CARE A4; ISSUER NOT COOPERATING* (A Four ISSUER NOT COOPERATING*)	Rating continues to remain under ISSUER NOT COOPERATING category
Total Bank Facilities	**6.75 (Rs. Six Crore and Seventy-Five Lakhs Only)**		

Details of facilities in Annexure -1

Detailed Rationale & Key Rating Drivers

CARE had, vide its press release dated April 03, 2020, placed the rating of Vallabh Corporation (VCO) under the 'issuer non-cooperating' category as VCO had failed to provide information for monitoring of the rating as agreed to in its Rating Agreement. VCO continues to be non-cooperative despite repeated requests for submission of information through e-mails, phone calls and a letter/email dated November 25, 2020, January 08, 2021 and February 18, 2020. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the best available information which however, in CARE's opinion is not sufficient to arrive at a fair rating.

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above ratings.

The ratings have been revised on account of non-availability of requisite information. The ratings further take into account its modest scale of operations with moderate profitability margins and debt coverage indicators in FY19 (Provisional - refers to period from April 1 to March 31). The ratings further remain constrained due to its presence into the competitive construction industry with low entry barriers and tender-driven nature of business coupled with geographical concentration risk and partnership nature of constitution. The ratings, however, derive benefits from the experience of the promoters in the construction industry as well as moderately comfortable capital structure in FY19.

Detailed description of key rating drivers

At the time of last rating on April 03, 2020 the following were the rating strengths and weaknesses):

Key Rating Weaknesses

Modest scale of operations and moderate profit margins during FY19

Scale of operations of VCO marked by its total operating income (TOI) remained modest at Rs.8.69 crore during FY19 (Provisional) as compared to Rs.9.57 crore during FY18 on account of decrease in orders for execution during FY19. The During FY19, PBILDT margin of the firm improved by 94 bps over the previous year and remained at 8.77% during FY19 as compared to 7.83% during FY18 on account of marginal lower procurement cost along with marginal lower other manufacturing expense during FY19. Consequently PAT margin also improved by 181 bps and remained at 3.65% during FY19 as compared to 1.84% during FY18 on account of increase in operating profit coupled with decrease in interest expense during FY19.

Moderately comfortable capital structure and moderate debt coverage indicators

As on March 31, 2019, capital structure of VCO improved over the previous year and remained moderately comfortable as marked by an overall gearing ratio of 1.02 times as against 1.37 times as on March 31, 2018 owing to increase in tangible net worth (on account of accretion of profits into reserves) coupled with decrease in total debt (due to lower working capital borrowings as on March 31, 2019).

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications; *Issuer did not cooperate; Based on best available information*

Partnership nature of constitution
VCO being a partnership firm is exposed to inherent risk of the partners' capital being withdrawn at the time of contingency. Partners may withdraw capital from the business as and when it is required, which may put pressure on the capital structure of the firm.

Geographical concentration risk
Contracts executed by VCO are majorly restricted in the state of Gujarat. Hence, any unforeseen event and adverse change in state government policies may have a huge impact on the profitability of VCO, thus increasing its vulnerability to geographical risk.

Exposed to competition due to low entry barriers and tender-driven nature of business
VCO participates in the tenders issued by the government for construction work, while the projects for private entities are largely obtained on negotiation basis. The construction industry is highly fragmented and competitive in nature with large number of players leading to aggressive bidding, which limits the profitability of the players.

Moderate order book position
VCO had an outstanding order book position of around Rs.20 crore as on January 29, 2019, underlining its limited order book.

Key Rating Strengths

Experienced partners
Mr. Dineshbhai Valjibhai Patel, the key partner of VCO, holds experience of around three decades in the construction industry and looks after overall operations of the firm. Overall, the partners are well versed with the construction business.

Moderate debt coverage indicators
During FY19, the interest coverage ratio of the company improved significantly and remained comfortable at 3.14 times as on March 31, 2019 as against 1.43 times as on March 31, 2018 on account of increase in operating profit along with significant decrease in interest expense (due to average working capital utilization) during FY19. The total debt to GCA of the company also improved over the previous year and remained moderate at 6.69 times as on March 31, 2019 as against 13.51 times as on March 31, 2018 due to decrease in total debt along with increase in GCA level.

Liquidity: Stretched
The liquidity position of the firm remained stretched marked by improved, however, elongated Gross Current Asset days of 150 days during FY19. Unencumbered cash and bank balance remained low at Rs.0.02 crore as on March 31, 2019, however, cash flow from operating activities improved to Rs.2.14 crore during FY19 from Rs.0.41 crore during FY18 on account of on account of decrease in current assets (owing to higher realization from receivables) as on March 31, 2019. Operating cycle of VCO has continued to remain moderate at 53 days during FY19 as against 56 days during FY18. Furthermore, current ratio of VCO remained at 1.54 times as on March 31, 2019 as against 1.48 times as on March 31, 2018.

Analytical approach: Standalone

Applicable Criteria
Policy in respect of Non-cooperation by issuer
CARE's Policy on Default Recognition
Criteria on assigning Outlook and Credit Watch to Credit Ratings
Rating Methodology - Construction Sector
Financial Ratios - Non-Financial Sector
Criteria for short term instruments
Liquidity Analysis of Non-Financial Sector Entities

About the firm
Established in 1986 as a proprietorship firm, Ahmedabad-based (Gujarat) VCO is promoted by Mr. Dineshbhai Patel and executes civil construction contracts largely for the departments of the Government of Gujarat. Later in April 2015, VCO was converted into partnership firm with addition of Mrs Sunita Patel, Mr Kaviraj Patel and Mr. Jiger Patel. VCO is registered as 'Class AA' contractor with Government of Gujarat for civil and road construction work along with interior designing and electrification work. Most of VCO's contracts pertain to road construction, development of parking areas, warehouse up-gradation and any repair or renovation work.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (Prov.)
Total operating income	9.57	8.69
PBILDT	0.75	0.76
PAT	0.18	0.32
Overall gearing (times)	1.37	1.02
Interest coverage (times)	1.43	3.14

A: Audited; Prov.: Provisional

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure 1: Details of Instruments/Facilities:

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	3.25	CARE B; Stable; ISSUER NOT COOPERATING*
Non-fund-based - ST-Bank Guarantees	-	-	-	3.50	CARE A4; ISSUER NOT COOPERATING*

**Issuer did not cooperate; Based on best available information*

Annexure 2: Rating History for last three years:

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Cash Credit	LT	3.25	CARE B; Stable; ISSUER NOT COOPERATING*	-	1)CARE B+; Stable; ISSUER NOT COOPERATING* (03-Apr-20)	-	1)CARE B+; Stable (06-Feb-19) 2)CARE B+; Stable (02-Apr-18)
2.	Non-fund-based - ST-Bank Guarantees	ST	3.50	CARE A4; ISSUER NOT COOPERATING*	-	1)CARE A4; ISSUER NOT COOPERATING* (03-Apr-20)	-	1)CARE A4 (06-Feb-19) 2)CARE A4 (02-Apr-18)

**Issuer did not cooperate; Based on best available information*

Annexure 3: Complexity level of various instruments rated for this Firm

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Non-fund-based - ST-Bank Guarantees	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

Contact us

Media Contact
Name: Mr. Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact
Group Head Name – Ms. Shreeda Shah
Group Head Contact no.- +91-79-4026 5636
Group Head Email ID- shreeda.shah@careratings.com

Business Development Contact
Name: Mr. Deepak Prajapati
Contact no. : +91-79-4026 5656
Email ID : deepak.prajapati@careratings.com

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