

V.K. Gupta & Associates

July 08, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term / Short Term Bank Facilities	40.00	CARE BBB-; Stable / CARE A3	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the proposed bank facilities of V.K. Gupta & Associates (VKGA) derive strength from experienced promoters, geographically diversified revenue profile coupled with healthy order book position and reputed client base along with escalation clause present in the contracts. The ratings further derive strength from self-owned construction equipment and vehicles and comfortable capital structure marked by low overall gearing. However, these rating strengths are partially offset by modest scale of operations, partnership nature of constitution, business risk associated with tender- based orders and cyclical nature of industry with intense competition.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increase in scale of operations above Rs. 300 crores along with PBILDT margin above 12% on a sustained basis.

Negative factors

- Decline in the PBILDT margin to below 7% on a sustained basis.
- Deterioration in the capital structure as marked by overall gearing ratio above 1.00x on sustained basis.
- Deterioration in GCA days above 170 days

Analytical approach: Standalone

Outlook: Stable

The "Stable" outlook reflects that the firm is likely to benefit from reputed clientele and self – owned construction equipment with long standing experience of the promoters in this business.

Detailed description of the key rating drivers:

Key strengths

Experienced Promoters:

VKGA is promoted by Mr. Vinay Gupta who has an experience of more than 35 years, Mr. Saksham Gupta with an experience of almost 14 years & Mr. Pratham Gupta with an experience of almost 7 years in the construction business. Additionally, the promoters of the firm are supported by a team of experienced and qualified professionals having experience in the technical, finance and marketing fields. The firm has an established track record of around 23 years in the civil construction work which has enabled it to establish relations with its customers thereby resulting into repetitive orders/tenders from the government departments.

Comfortable financial risk profile:

The overall gearing of the firm stood low at 0.33x as on March 31, 2024 (PY: 0.45x). The improvement was on account of comparatively low reliance on external borrowings due to repayment of term loan. Further, the debt coverage indicators marked by interest coverage and total debt/GCA stood comfortable at 10.47x (PY:12.46x) and 1.00 x (PY: 1.22x) in FY24 respectively.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Geographically diversified revenue profile with healthy order book position:

The firm has presence in Himachal Pradesh, Sikkim, Arunachal Pradesh, West Bengal, Jammu & Kashmir, Uttar Pradesh, and other states. The comfort can be derived from the superior ability of the firm to complete the projects within the time and cost estimates. The firm has diversified its order book to reduce the dependence on any particular contract and had a healthy unexecuted order book of Rs.705.31 crore as on March 31, 2024 (~3.73 times of total operating income in FY24) which gives revenue visibility in the medium term.

Reputed clientele base:

VKGA undertakes civil construction work in various states across the country viz. Himachal Pradesh, Sikkim, Arunachal Pradesh, West Bengal, Jammu & Kashmir, Uttar Pradesh, and other states. Furthermore, the firm executes contract from reputed clients such as states BRO (Border Roads Organisation), Public Work Departments (PWD), JKPC (Jammu & Kashmir Projects Construction Corporation Ltd), U.P. State Bridge Corporation.

Escalation clause present in the contracts:

VKGA procures its raw materials like stones, timber, concrete and steel from local vendors, which has risk of volatility in raw material prices. The firm has inbuilt price escalation clauses in its contracts to insulate the firm from any adverse fluctuation in raw material prices. The firm has unexecuted orders of Rs 705.31 crore out of which 53% of the orders have escalation clause. This enables the firm to pass on the increase in raw material prices to its customers. Ability of the firm to pass on increased price burden to the customers in a timely manner and maintain profitability margins is critical from the credit perspective.

Self- owned construction equipment & vehicles:

In line with the increase in operations and order book, VKGA has been constantly adding machinery, equipment (like dumpers, excavators, soil compactor, roller, crushers, concrete batching plant, backhoe loader, hot mix plant etc.) and vehicles and at the same time employing latest technology to suit its growing needs and expanding clientele. Efficient deployment of the resources and investment in machinery has resulted in faster mobilization and timely execution of projects which has helped the firm in increasing its turnover. Also, along with the timely execution of the project, it generates higher margin for the firm as reflected by high profitability margins. The firm intends on investing in equipment in the future as and when required as per the orders in hand. The firm has done capex of Rs 8.27 crore in FY23 and Rs 8.97 crore in FY24 mainly on purchase of machinery. The firm derives benefit from owned equipment as this leads to saving of lease rental cost leading to higher profitability.

Key weaknesses
Modest scale of operations:

The scale of operations of the firm stood modest as marked by total operating income of Rs. 188.79 crore in FY24(refers to the period from April 01, 2023 to March 31, 2024) as compared to Rs 198.29 crore in FY23 (refers to the period from April 01, 2022 to March 31, 2023)). The PBILDT and PAT margin of the firm stood moderate at 10.43% (PY: 9.76%) and 5.55% (PY: 5.22%) respectively in FY24. firm's profitability margins i.e., PBILDT margin stood moderate at 10.43% in FY24(Prov.) as compared to 9.76% in FY23 (Audited).

Partnership nature of constitution:

VKGA constitution is a partnership concern with modest net worth base that restricts its overall financial flexibility in terms of limited access to external fund for any future expansion plans. Furthermore, there is an inherent risk of possibility of withdrawal of capital and dissolution of the firm in case of death/insolvency of partners and the partners have withdrawn capital of Rs 7.19 crore during FY24 and Rs 4.31 crore in FY23. Furthermore, the firm's net-worth improved yet stood modest at Rs.40.75 crore as on March 31, 2024, as compared to Rs 37.46 crore as on March 31, 2023 (actual). With the low base of its own funds, its operations are susceptible to any business shock, thereby limiting its ability to absorb losses or financial exigencies. Further, it also results in increased vulnerability of its financial risk profile to any incremental debt.

Business risk associated with tender- based orders:

The firm is exposed to the risk associated with the tender-based business, which is characterized by intense competition. The growth of the business depends on its ability to successfully bid for the tenders and emerge as the lowest bidder. Furthermore, any changes in the government policy or government spending on projects are likely to affect the revenues of the firm.

Cyclical nature of the industry with intense competition:

The primary business of VKGA is civil construction, which is highly fragmented and competitive in nature with large number of players leading to aggressive biddings. The sector is also marred by various other challenges on account of economic slowdown, regulatory changes and policy paralysis which has adversely impacted the financial and liquidity profile of players in the industry. Government of India has undertaken several steps for boosting the infrastructure development and revive the investment cycle. The same has gradually resulted in increased order inflow and movement of passive orders in existing order book. The focus of the government on infrastructure development is expected to translate into huge business potential for the construction industry in the long run. In the short to medium term (1-3 years), projects from transportation and urban development sector are expected to dominate the overall business for construction companies.

Liquidity: Adequate

The liquidity position of the firm is adequate as reflected by projected gross cash accruals of Rs.15.66 crore in FY25 against term loan repayment obligation of Rs.2.01 crore. The average utilisation for the working capital borrowings remained moderate at 42% for trailing 12 months ended April 30, 2024. VKGA had cash and bank balance of Rs 13.28 crore as on March 31, 2024. The firm is not planning to incur any major capex in the near to medium term.

Assumptions/Covenants: Not Applicable

Environment, social, and governance (ESG) risks : Not Applicable

Applicable criteria

[Definition of Default](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

[Financial Ratios – Non financial Sector](#)

[Construction](#)

[Short Term Instruments](#)

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Industrials	Construction	Construction	Civil Construction

V.K. Gupta & Associates is partnership firm incorporated in 2000 and is engaged in business of contract work of civil construction, storage, supply, lining and other similar contracts. The firm is operating from Panchkula (Haryana). Initially, there were 3 partners Mr. J.C. Gupta, Mr. Vinay Gupta & Mrs. Dimple Gupta. Later, J.C. Gupta and Mrs. Dimple Gupta retired and Mr. Saksham Gupta and Mr. Pratham Gupta joined as partners. The firm has a reputed clientele such as states Rural Work Departments (RWD), Public Work Department (PWD), States' National Highway Divisions. Apart from bidding on its own, the firm has also set-up JVs with other reputed players in the industry.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (UA)	Q1FY25 (UA)
Total operating income	198.29	188.79	NA
PBILDT	19.35	19.69	NA
PAT	10.36	10.48	NA
Overall gearing (times)	0.45	0.33	NA
Interest coverage (times)	12.46	10.47	NA

A: Audited UA: Unaudited NA: Not Available; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT/ ST-Working Capital Limits	-	-	-	-	40.00	CARE BBB-; Stable / CARE A3

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT/ ST-Working Capital Limits	LT/ST	40.00	CARE BBB-; Stable / CARE A3	-	-	-	-

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT/ ST-Working Capital Limits	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact Us

<p>Media Contact</p> <p>Mradul Mishra Director CARE Ratings Limited Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in</p> <p>Relationship Contact</p> <p>Ankur Sachdeva Senior Director CARE Ratings Limited Phone: 91 22 6754 3444 E-mail: Ankur.sachdeva@careedge.in</p>	<p>Analytical Contacts</p> <p>Puneet Kansal Director CARE Ratings Limited Phone: 91-120-4452018 E-mail: puneet.kansal@careedge.in</p> <p>Dhruv Mittal Assistant Director CARE Ratings Limited Phone: 91-120-4452050 E-mail: dhruv.mittal@careedge.in</p> <p>Pranjal Jagetiya Rating Analyst CARE Ratings Limited E-mail: Pranjal.Jagetiya@careedge.in</p>
---	--

About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

Disclaimer:

The ratings issued by CARE Ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse, or recall the concerned bank facilities or to buy, sell, or hold any security. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings has based its ratings/outlook based on information obtained from reliable and credible sources. CARE Ratings does not, however, guarantee the accuracy, adequacy, or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating/outlook assigned by CARE Ratings is, inter-alia, based on the capital deployed by the partners/proprietors and the current financial strength of the firm. The ratings/outlook may change in case of withdrawal of capital, or the unsecured loans brought in by the partners/proprietors in addition to the financial performance and other relevant factors. CARE Ratings is not responsible for any errors and states that it has no financial liability whatsoever to the users of the ratings of CARE Ratings. The ratings of CARE Ratings do not factor in any rating-related trigger clauses as per the terms of the facilities/instruments, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and triggered, the ratings may see volatility and sharp downgrades.

**For the detailed Rationale Report and subscription information,
please visit www.careedge.in**