

Virtue Industries

January 22, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	10.50	CARE B+; Stable; ISSUER NOT COOPERATING* (Single B Plus; Outlook: Stable ISSUER NOT COOPERATING*)	Rating continues to remain under ISSUER NOT COOPERATING category and Revised from CARE BB-; Stable; (Double B Minus; Outlook: Stable)
Total Bank Facilities	10.50 (Rs. Ten Crore and Fifty Lakhs Only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE had, vide its press release dated December 10, 2019 placed the rating(s) of Virtue Industries (VI) rating, under the 'issuer non-cooperating' category as VI had failed to provide information for monitoring of the ratings. VI continues to be non-cooperative despite repeated requests for submission of information through e-mails, phone calls and emails dated January 2020 to January 08, 2021. 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 rating.

The revision in the rating takes into account the non-availability of requisite information due to non-cooperation by Virtue Industries with CARE's efforts to undertake a review of the outstanding ratings as CARE views information availability risk as key factor in its assessment of credit risk profile

Detailed description of the key rating drivers

At the time of last rating on December 10, 2019 the following were the rating strengths and weaknesses:

Key Rating Weakness

Short track record of the company

The firm was established in the April 2016 and therefore has a very short track record of business operations. However, some comfort can be drawn from the fact that the promoter has experience from operating Virtue's group concerns namely 'MMR & Co' (established in 1960) and 'Sri Sai Ganesh Stone Crushers' (established in 1960) engaged in stone crushing business and manufacturing of various building materials. The scale of operations of the company stood at Rs.20.02 crore in FY18 with net worth base of Rs. 5.89 crore during review period.

Working capital intensive nature of operations

Virtue's operations are highly working capital intensive in nature. Products are sold on credit basis for a period of 30-45 days while the company enjoys credit from its suppliers (group concern) for a period of 30-60 days. The company on an average maintains blue metal stock for a period of more than four months. The average utilization of the working capital facility for the last 12 months ended August 2018 remained at 80-90%.

Partnership nature of constitution with inherent risk of capital withdrawal

The partners typically make all the decisions and lead the business operations. If they become ill or disabled, there may not be anybody else to step in and maintain the optimum functioning of business. A business run by four partners also poses a risk of heavy burden, i.e. an inherent risk of capital withdrawal, at a time of personal contingency which can adversely affect the capital structure of the firm. Moreover, the partnership firms have restricted access to external borrowing which limits their growth opportunities to some extent.

Highly competitive nature of construction industry

The Government's continuous thrust on the infrastructure projects is likely to benefit the construction companies with better execution capability in the long term. Virtue receives its work orders mainly from private companies and more particularly from the infrastructure sector. All these are tender-based and the revenues are dependent on the customer's ability to bid successfully for these tenders. Profitability margins come under pressure because of the competitive nature of the industry. There are numerous fragmented & unorganized players operating in the industry which makes the construction aggregates industry space highly competitive.

Key Rating Strengths

Experience of the partners in construction industry

Virtue Industries is promoted by the Munsunuru family. The managing partners, Mr. M. Siva Ramakrishna and Mr. M. Rajeev Krishna, have a collective experience of more than three decades in the construction industry

Reputed client portfolio

Virtue's client portfolio comprises of some renowned names in the Indian business market. However, Virtue's association with them has been only for a short period of time.

Operational synergy from group associate

Virtue acquires its raw material, blue metal; from its group associate SSGSC which has leased quarries from the government for a period of 25 years. On an average, the firm sources 5 Lakh tons per month of blue metals. Virtue thus enjoys liberal credit period to a tune of 30-60 days on acquiring its major raw material from its group associate.

Short term to medium term revenue visibility from order book in hand

The order book position of the firm as on August 31st, 2018 was approximately Rs.5.13 crore and it is expected to be completed by the end of October, 2018. The said order book of is geographically skewed with most of the orders from Andhra Pradesh

Increase in total operating income during FY18

The firm has achieved a total operating income of 20.02 crore as it has had its first full year of operations.

Satisfactory operating margins

The PBILDT margin stood satisfactory at 19.30% in FY18. The PAT margin stood thin at 0.81% due to significant increase in interest expenses, on the back of availing term loans for procuring plant and machinery, to support increase in scale of operations.

Leveraged capital structure albeit improved in FY18 over FY17 and moderate debt coverage indicators

The capital structure of the firm improved as denoted by debt equity ratio and overall gearing ratio of the company which stood at 2.54x and 2.89x, respectively, as on March 31st 2018 as compared to 3.19x and 3.80x, respectively, as on March 31st 2017, on the back of accretion of profits to business and introduction of capital by the partners, although there was an increase in the term loans.

The company had taken term loan for the purpose of purchasing plant and machinery and increase in utilisation of working capital facility to match significant increase in scale of operations which resulted in higher outstanding balance of the working capital facility as on account closing date.

Total debt/GCA of the company improved from 13.92x in FY17 to 7.22x in FY18 due to increase in Gross Cash Accruals as result of increase in scale of operations. However, the interest coverage ratio deteriorated from 4.54x in FY17 to 2.57x in FY18 due to increase in interests costs on account of increase in debt levels

Analytical Approach: Standalone

Applicable Criteria

[Policy in respect of Non-cooperation by issuer](#)

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology-Manufacturing Companies](#)

[Financial ratios – Non-Financial Sector](#)

About the Firm

Krishna District (Andhra Pradesh) based, Virtue Industries was established in the year 2016 as a partnership firm by Munsunuru family. The firm is engaged in the manufacturing and sale of construction aggregates (in the range of 0mm to 40mm) to the construction industry. The blue-metals are acquired from Virtue's group associate "Sri Sai Ganesh Stone Crusher" (SSGSC). The various types of aggregates manufactured are sold to domestic infrastructure and construction companies. The firm has an installed capacity of 350 TPH (Tons Per Hour) as on December 27th 2017 located at Krishna District, Andhra Pradesh.

Brief Financials (Rs. crore)	FY17 (A)	FY18(A)
Total operating income	0.92	20.02
PBILDT	1.06	3.86
PAT	0.02	0.16
Overall gearing (times)	3.80	2.89
Interest coverage (times)	4.54	2.57

A: Audited;

Status of non-cooperation with previous CRA: Any other information: CRISIL has conducted the review on the basis of the best available information and has classified Virtue Industries as "Issuer Not cooperating" vide its press release dated June 22, 2020.

Any other information: Not Applicable

Rating History (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-Term Loan	-	-	March-2022	3.55	CARE B+; Stable; ISSUER NOT COOPERATING*
Fund-based - LT-Cash Credit	-	-	-	6.95	CARE B+; Stable; ISSUER NOT COOPERATING*

*Issuer did not cooperate; based on based available information

Annexure-2: Rating History of 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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	3.55	CARE B+; Stable; ISSUER NOT COOPERATING*	-	1)CARE BB-; Stable; ISSUER NOT COOPERATING* (10-Dec-19)	1)CARE BB-; Stable (25-Sep-18)	1)CARE B+; Stable (12-Feb-18)
2.	Fund-based - LT-Cash Credit	LT	6.95	CARE B+; Stable; ISSUER NOT COOPERATING*	-	1)CARE BB-; Stable; ISSUER NOT COOPERATING* (10-Dec-19)	1)CARE BB-; Stable (25-Sep-18)	1)CARE B+; Stable (12-Feb-18)

*Issuer did not cooperate; based on based available information

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not Applicable**Annexure 4: Complexity level of various instruments rated for this company**

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	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.

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