

## Vallabh Corporation

February 06, 2019

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	3.25	<b>CARE B+; Stable</b> <b>(Single B Plus; Outlook: Stable)</b>	Reaffirmed
Short Term Bank Facilities	3.50	<b>CARE A4</b> <b>(A Four)</b>	Reaffirmed
<b>Total facilities</b>	<b>6.75</b> <b>(Rupees Six crore and</b> <b>Seventy Five lakh only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Vallabh Corporation (VCO) continue to remain constrained on account of modest scale of operations, its moderate profitability, moderately leveraged capital structure and debt coverage indicators and limited order book. 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.

VCO's ability to increase its scale of operations with increased execution of orders, geographical diversification and improvement in its profitability, solvency and debt protection metrics would be the key rating sensitivities.

### Detailed description of the key rating drivers

#### Key Rating Weaknesses

#### Decrease in total operating income (TOI) coupled in FY18 with moderate profitability

During FY18 (refers to the period April 1 to March 31), VCO registered de-growth of 52.74% in its TOI which stood at Rs.9.57 crore as against Rs.20.25 crore during FY17 on the back of decline in contract work executed during the year. During FY18, VCO's profitability improved with a PBILDT margin of 7.83% as against 4.75% in FY17, on account of better margins for projects under execution. Further, its PAT margin improved marginally and stood moderate at 1.84% during FY18, where reduction in depreciation and interest expenses also contributed positively.

#### Moderately leveraged capital structure and debt coverage indicators

As on March 31, 2018, VCO's capital structure improved but was still moderately leveraged as marked by an overall gearing ratio of 1.37x as against 1.63x as on March 31, 2017 on account of marginal improvement in net worth with accretion of profits into reserves coupled with marginal reduction in outstanding debt. Further, the debt coverage indicators were moderate marked by total debt to gross cash accruals of 13.51x as on March 31, 2018 as against 10.65x as on March 31, 2017 as the decline in cash accruals impacted the debt coverage indicator negatively.

#### Moderate liquidity position

VCO had a moderate liquidity marked its working capital cycle of 55 days in FY18 (35 days in the previous year), on account of its long collection and inventory period, while credit period available from suppliers is limited. The utilization of the fund based limits remained 50% during the 12 months ended January 2019.

#### 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.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

### 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.

**Analytical Approach:** Standalone

### Applicable Criteria

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

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

[Rating Methodologies: Short Term Instruments](#)

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

### 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)	FY17 (A)	FY18 (A)
Total operating income	20.25	9.57
PBILDT	0.96	0.75
PAT	0.27	0.18
Overall gearing (times)	1.63	1.37
Interest coverage (times)	1.58	1.43

A: Audited

VCO has achieved TOI of Rs.5.45 crore during 9MFY19 (Provisional).

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History (Last three years):** Please refer Annexure-2

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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### About CARE Ratings:

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

#### 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
Non-fund-based - ST-Bank Guarantees	-	-	-	3.50	CARE A4

#### 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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	3.25	CARE B+; Stable	1)CARE B+; Stable (02-Apr-18)	-	1)CARE B+; Stable (20-Jan-17)	-
2.	Non-fund-based - ST-Bank Guarantees	ST	3.50	CARE A4	1)CARE A4 (02-Apr-18)	-	1)CARE A4 (20-Jan-17)	-

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