

## Vallabh Corporation

April 02, 2018

### Ratings

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

*Details of instruments/facilities in Annexure -1*

### Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Vallabh Corporation (VCO) is primarily constrained on account of modest scale of operations, moderate profit margins, leveraged capital structure, moderate debt coverage indicators and moderate liquidity position in FY17 (refers to the period April 1 to March 31). Further, the rating also takes into consideration presence into the competitive construction industry having 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 by executing more orders, geographical diversification and improving its profitability, solvency position and debt protection metrics would be the key rating sensitivities.

### Detailed description of the key rating drivers

#### Key Rating Weaknesses

#### Moderate scale of operations coupled with moderate profit margins during FY17

During FY17, VCO registered growth of 21.79% in its TOI which stood at Rs.20.25 crore as against Rs.16.63 crore during FY16. During FY17, the profit margins continued to remain moderate marked by the PBILDT margin of VCO stood at 4.76% as against 4.70% in FY16. However, PAT margin of the company during FY17 declined marginally and stood moderate at 1.34% as against 1.85% during FY16.

#### Leveraged capital structure and moderate debt coverage indicators

As on March 31, 2017, capital structure of VCO improved and stood leveraged as marked by an overall gearing ratio of 1.63 times as against 2.77 times as on March 31, 2016 on account of improvement in net worth position and reduction in total debt as on balance sheet date. Further, the debt coverage indicators stood moderate as marked by total debt to gross cash accruals of 10.65 times as on March 31, 2017 as against 11.38 times as on March 31, 2016 on account of reduction in total debt as on March 31, 2017. However, interest coverage ratio has declined marginally and stood moderate at 1.58 times for FY17 as against 1.78 times for FY16 due to increase in interest cost during FY17 (A).

#### Moderate liquidity position

The liquidity position stood moderate as marked by current ratio which stood at 1.16 times as on March 31, 2017 as against 1.09 times as on March 31, 2016. The working capital cycle also improved and stood comfortable at 28 days during FY17 due to reduction in collection period.

#### 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. The proprietor 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

The contracts executed by VCO are majorly restricted towards different regions in the state of Gujarat state only. Hence, any unforeseen event and changes 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 passed by the government for construction work, while the projects for private entity are bagged directly. The construction contracting business is highly fragmented and competitive in nature with large number of players leading to aggressive bidding. Hence, the aggressive bidding by the players like VCO in order to bag the contracts may lead to dip in its profitability.

### Key Rating Strengths

#### Experienced partners

Mr Dineshbhai Valjibhai Patel is the key partner 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 contracting business.

**Analytical Approach:** Standalone

**Applicable Criteria**

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

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

[Rating Methodologies: Short Term Instruments](#)

[Rating Methodology - Infrastructure Sector Ratings](#)

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

**About the firm**

Established in 1986 as 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 the contracts pertain to road construction, development of parking areas of government authorities, warehouse up gradation and any repair or renovation work.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	16.63	20.25
PBILDT	0.78	0.96
PAT	0.31	0.27
Overall gearing (times)	2.77	1.63
Interest coverage (times)	1.78	1.58

A: Audited

VCO has achieved TOI of Rs. 7.20 crore during 11MFY18.

**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.

**Analyst Contact**

Name: Mr Chintan Soni

Tel: (079) 40265634

Mobile: +91-8511190016

Email: [chintan.soni@careratings.com](mailto:chintan.soni@careratings.com)

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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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	LT	3.25	CARE B+; Stable	-	1)CARE B+; Stable (20-Jan-17)	-	-
2.	Non-fund-based - ST-Bank Guarantees	ST	3.50	CARE A4	-	1)CARE A4 (20-Jan-17)	-	-

**CONTACT****Head Office Mumbai**

**Ms. Meenal Sikchi**  
Cell: + 91 98190 09839  
E-mail: [meenal.sikchi@careratings.com](mailto:meenal.sikchi@careratings.com)

**Mr. Ankur Sachdeva**  
Cell: + 91 98196 98985  
E-mail: [ankur.sachdeva@careratings.com](mailto:ankur.sachdeva@careratings.com)

**Ms. Rashmi Narvankar**  
Cell: + 91 99675 70636  
E-mail: [rashmi.narvankar@careratings.com](mailto:rashmi.narvankar@careratings.com)

**Mr. Saikat Roy**  
Cell: + 91 98209 98779  
E-mail: [saikat.roy@careratings.com](mailto:saikat.roy@careratings.com)

**CARE Ratings Limited**

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022  
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: [care@careratings.com](mailto:care@careratings.com)

**AHMEDABAD**

**Mr. Deepak Prajapati**  
32, Titanium, Prahaladnagar Corporate Road,  
Satellite, Ahmedabad - 380 015  
Cell: +91-9099028864  
Tel: +91-79-4026 5656  
E-mail: [deepak.prajapati@careratings.com](mailto:deepak.prajapati@careratings.com)

**JAIPUR**

**Mr. Nikhil Soni**  
304, Pashupati Akshat Heights, Plot No. D-91,  
Madho Singh Road, Near Collectorate Circle,  
Bani Park, Jaipur - 302 016.  
Cell: +91 – 95490 33222  
Tel: +91-141-402 0213 / 14  
E-mail: [nikhil.soni@careratings.com](mailto:nikhil.soni@careratings.com)

**BENGALURU**

**Mr. V Pradeep Kumar**  
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,  
No. 30, M.G. Road, Bangalore - 560 001.  
Cell: +91 98407 54521  
Tel: +91-80-4115 0445, 4165 4529  
Email: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)

**KOLKATA**

**Ms. Priti Agarwal**  
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)  
10A, Shakespeare Sarani, Kolkata - 700 071.  
Cell: +91-98319 67110  
Tel: +91-33- 4018 1600  
E-mail: [priti.agarwal@careratings.com](mailto:priti.agarwal@careratings.com)

**CHANDIGARH**

**Mr. Anand Jha**  
SCF No. 54-55,  
First Floor, Phase 11,  
Sector 65, Mohali - 160062  
Chandigarh  
Cell: +91 851111-53511/99251-42264  
Tel: +91- 0172-490-4000/01  
Email: [anand.jha@careratings.com](mailto:anand.jha@careratings.com)

**NEW DELHI**

**Ms. Swati Agrawal**  
13th Floor, E-1 Block, Videocon Tower,  
Jhandewalan Extension, New Delhi - 110 055.  
Cell: +91-98117 45677  
Tel: +91-11-4533 3200  
E-mail: [swati.agrawal@careratings.com](mailto:swati.agrawal@careratings.com)

**CHENNAI**

**Mr. V Pradeep Kumar**  
Unit No. O-509/C, Spencer Plaza, 5th Floor,  
No. 769, Anna Salai, Chennai - 600 002.  
Cell: +91 98407 54521  
Tel: +91-44-2849 7812 / 0811  
Email: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)

**PUNE**

**Mr. Pratim Banerjee**  
9th Floor, Pride Kumar Senate,  
Plot No. 970, Bhamburda, Senapati Bapat Road,  
Shivaji Nagar, Pune - 411 015.  
Cell: +91-98361 07331  
Tel: +91-20- 4000 9000  
E-mail: [pratim.banerjee@careratings.com](mailto:pratim.banerjee@careratings.com)

**COIMBATORE**

**Mr. V Pradeep Kumar**  
T-3, 3rd Floor, Manchester Square  
Puliakulam Road, Coimbatore - 641 037.  
Tel: +91-422-4332399 / 4502399  
Email: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)

CIN - L67190MH1993PLC071691

**HYDERABAD**

**Mr. Ramesh Bob**  
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,  
Hyderabad - 500 029.  
Cell : + 91 90520 00521  
Tel: +91-40-4010 2030  
E-mail: [ramesh.bob@careratings.com](mailto:ramesh.bob@careratings.com)