Vallabh Corporation

April 03, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	**3.25**	**CARE B+; Stable; ISSUER NOT COOPERATING* (Single B Plus; Outlook : Stable; ISSUER NOT COOPERATING*)**	Issuer not co operating; Based on best available information
Short Term Bank Facilities	**3.50**	**CARE A4; ISSUER NOT COOPERATING* (A Four; ISSUER NOT COOPERATING*)**	Issuer not co operating; Based on best available information
Total Facilities	**6.75 (Rupees Six crore and Seventy Five lakh only)**		

Details of instruments/facilities in Annexure-1

CARE has been seeking information from Vallabh Corporation (VCO) to monitor the ratings vide e-mail communications/letters dated January 2, 2020, January 16, 2020, February 17, 2020, February 25, 2020, February 27, 2020, March 5, 2020, March 16, 2020 and numerous phone calls. However, despite our repeated requests, the firm has not provided the requisite information for monitoring the ratings. 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. The rating on VCO's bank facilities will now be denoted as **CARE B+; Stable/CARE A4; ISSUER NOT COOPERATING***.
Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating(s).
The ratings take into account its modest scale of operations, its moderate profitability as well as debt coverage indicators along with stretched liquidity during 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 improvement in order book position and moderately comfortable capital structure in FY19.

Detailed description of key rating drivers
At the time of last rating on February 06, 2019 the following were the rating strengths and weaknesses (updated for the information available from the client):
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. 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.
Moderate debt coverage indicators
Debt coverage indicators of VCO marked by total debt to GCA improved over the previous year, but continued to remain 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. During FY19, the interest coverage ratio of VCO improved and remained 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 decrease in interest expense during FY19.

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.

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

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.
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.
Moderately comfortable capital structure
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).
Improvement in order book position
VCO's outstanding order book position improved and remained at around Rs.50.10 crore as on August 15, 2019, which indicates medium revenue visibility.

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]
[Criteria on assigning Outlook and Credit Watch to Credit Ratings]
[CARE's Policy on Default Recognition]
[Financial ratios – Non-Financial Sector]
[Criteria for Short Term Instruments]

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* Issuer not cooperating; Based on best available information
Non-fund-based - ST-Bank Guarantees	-	-	-	3.50	CARE A4; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information

*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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	3.25	CARE B+; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information	-	1)CARE B+; Stable (06-Feb-19) 2)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; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information	-	1)CARE A4 (06-Feb-19) 2)CARE A4 (02-Apr-18)	-	1)CARE A4 (20-Jan-17)

*Issuer did not cooperate; Based on best available information

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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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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