

Vijay Builders & Constructions Private Limited

January 30, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based-Cash Credit	2.00	3.00	[ICRA]BB (Stable); Assigned / Outstanding
Fund based- Bank Guarantee	5.50	8.00	[ICRA]BB (Stable); Assigned / Outstanding
Total	7.50	11.00	

Rating action

ICRA has assigned / reaffirmed a long-term rating of [ICRA]BB (pronounced ICRA double B) to the Rs. 3.00 crore¹ (enhanced from Rs. 2.00 crore) cash credit facility and Rs. 8.00 crore (enhanced from Rs. 5.50 crore) bank guarantee facility of Vijay Builders & Constructions Private Limited Ltd. (VBCPL or the company)². The outlook on the long-term rating is 'Stable'.

Rationale

The assigned / reaffirmed rating continues to take into account the extensive experience of the VBCPL's promoters in civil construction business and its established relationship with government undertaking companies in oil and gas sector which has garnered repeat orders. The rating continues to favourably factor in VBCPL's comfortable capital structure as depicted by low gearing of 0.36 times as on March 31, 2017.

The rating, however, continues to remain constrained by the company's modest scale of operations in a highly competitive business environment characterised by presence of large number of qualified contractors at the bidding stage. This coupled with the tender (L1)³ based contract awarding system followed by Government / PSU clients, limits the company's profitability. The company also remains exposed to sector specific and customer concentration risks with the majority of its revenues derived from oil and gas sector from two major PSUs. ICRA also takes note of the susceptibility of company's profitability to fluctuation in raw material prices due to the absence of a price escalation clause in most of its contracts. Furthermore, the rating also considers the high working capital intensity of the company's operations emanating from its elongated project duration due to procedural delays resulting in delays in billings and blocking of funds, leading to an increased reliance on working capital borrowings.

Going forward, VBCPL's ability to timely execute projects and increase the scale of its operations, while effectively managing its working capital requirements will remain key rating sensitivities.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

³ As per the L1 tender awarding system, the contracts are awarded to the lowest price bidder.

Outlook: Stable

ICRA believes VBCPL will continue to benefit from the extensive experience of its promoters. The outlook may be revised to 'Positive' if substantial growth in revenue and profitability, and better working capital management, strengthens the financial risk profile. The outlook may be revised to 'Negative' if cash accrual is lower than expected, or stretch in the working capital cycle, weakens liquidity.

Key rating drivers

Credit strengths

Extensive experience of promoters in civil construction business – VBCPL was originally established as a proprietorship concern- “Vijay Builders” by Mr. Vashdev Alreja in 1978. It was converted into a private limited company in March 2006. VBCPL is engaged in civil construction and has executed several projects involving retail outlet building construction, road construction, structural and other allied works at the retail outlets, depots and refineries of the oil companies.

Comfortable capital structure at present – The capital structure of the company has historically remained comfortable with majority of the debt (79%) being working capital borrowings. With continuous modest increase in the net worth over the years, the gearing remained below 0.40 times in the past five years. During the same period, low debt has also ensured comfortable coverage ratios indicated by interest coverage ratio of above 3 times and DSCR of above 2.5 times.

Established clientele and geographical diversification – VBCPL is engaged in civil construction and primarily undertakes contracts for oil and gas public sector undertakings (PSUs) like Hindustan Petroleum Corporation Ltd (HPCL) and Bharat Petroleum Corporation Ltd (BPCL). It receives contracts from these PSUs to be executed pan India. Till date the company has successfully completed contract work in several states of India including Kerala, Karnataka, Madhya Pradesh, Chhattisgarh, Goa, Gujarat, Haryana, Maharashtra and Orissa.

Credit challenges

Small scale of operations – VBCPL’s scale of operations continued to remain small over the years. With low order book size and low outstanding orders to operating income ratio of ~1.07 in FY2017 the visibility of revenues in near to medium term remains low. Small scale of operations also limits the bargaining power of the company with the customers and the suppliers, thereby limiting its profitability.

Sectoral and customer concentration risk with revenues largely derived from two oil and gas sector PSUs – The company also remains exposed to sectoral and customer concentration risks with 90 – 95% of its revenues derived from two oil and gas sector PSUs, namely HPCL and BPCL. The risk, however, is reduced to a certain extent due to regular repeat orders from the customers. Though slowdown in oil and gas sector and lower order from these customers can adversely affect the operations of the company.

High competitive intensity due to a large number of qualified contractors at the bidding stage – Civil construction remains a highly fragmented and competitive industry coupled with a tender-based contract-awarding system followed by the government departments. This keeps the profit margins under pressure. The bid-success ratio has also remained low historically owing to the stiff competition faced and stood low at 19% in FY2017. Since the company is a registered contractor with HPCL and BPCL it is required to mandatorily bid for tenders floated by these companies, failing which they shall not be allowed to participate in future tenders.

High working capital intensity of operations emanating from slow moving project and elongated project duration – Elongated project duration and slow moving ongoing projects due to procedural hindrances resulted in delays in billings and blocking of funds. This led to high working capital intensity of 54% in FY2016. However due to timely execution of some projects in FY2017, it reduced to 36%, remaining on the higher side. The working capital requirement is met by bank borrowings, which remained near to fully utilisation in FY2017.

High exposure to price fluctuations in key raw materials, as the contracts are fixed price based - The major raw materials required for civil construction include fuel, cement, steel and iron, metal, concrete etc. The company procures its raw materials from the local suppliers, based on the proximity to the construction site. In absence of cost escalation clause in most of the contracts, the company is exposed to raw material price fluctuation risk.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Construction Entities](#)

About the company:

VBCPL was originally established as a proprietorship concern, “Vijay Builders” by Mr. Vashdev Alreja in 1978. It was converted into a private limited company in March 2006 and renamed as Vijay Builders & Constructions Private Limited. The company has two manufacturing facilities at Mira Road and Wada which collectively have an annual production capacity of 1200MT. The company undertakes part of the steel structure fabrication work at these facilities and outsources the remaining work to third parties.

VBCPL is engaged in civil construction and primarily undertakes contracts for oil and gas PSUs. VBCPL has undertaken retail outlet building construction, road construction, structural and other allied works at the retail outlets, depots and refineries of the oil companies. The company has executed works in states like Kerala, Karnataka, Madhya Pradesh, Chhattisgarh, Goa, Gujarat, Haryana, Maharashtra and Orissa.

In FY2017, the company reported a net profit of Rs. 0.59 crore on an operating income of Rs. 28.10 crore, as compared to a net profit of Rs. 0.48 crore on an operating income of Rs. 17.32 crore in the previous year.

Key financial indicators (audited)

	FY 2016	FY 2017
Operating Income (Rs. crore)	17.32	28.10
PAT (Rs. crore)	0.48	0.59
OPBDIT/ OI (%)	5.97%	4.38%
RoCE (%)	9.84%	11.73%
Total Debt/ TNW (times)	0.34	0.36
Total Debt/ OPBDIT (times)	2.39	2.32
Interest coverage (times)	3.72	3.53
NWC/ OI (%)	54%	36%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Current Rating (FY2018)					Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
				Jan 2018	October 2017	October 2016	September 2015
1 Cash Credit	Long Term	3.00	-	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)
2 Bank Guarantee	Long Term	8.00	-	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	3.00	[ICRA]BB (Stable)
NA	Bank Guarantee	NA	NA	NA	8.00	[ICRA]BB (Stable)

Source: Vijay Builders & Constructions Private Limited

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