



Rating Rationale

24 Mar 2018

Vama Construction Company

Brickwork Ratings assigns the ratings for the Bank Loan Facilities of ₹. 5.00 Crores of Vama Construction Company

Particulars

Facility	Amount (₹ Crs)	Tenure	Rating*
Fund based Overdraft Limit	3.00	Long Term	BWR B (Pronounced as BWR Single B) Outlook : Stable
Non Fund Based Bank Guarantee	2.00	Short Term	BWR A4 (Pronounced as BWR A Four)
Total	5.00	INR Five Crores Only	

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has principally relied upon the audited financials upto FY17, Projected/estimated financials upto FY20 and information /clarifications provided by the firm's management.

The rating derives strength from long track record of promoter in civil construction contracts with Govt. of Gujarat and reputed client portfolio of local bodies. However, the rating continues to remain constrained on account of its financial risk profile marked by low scale of operations and thin profit margins, and moderate gearing position along with working capital intensive nature of operation. Further, the rating also continue to remain constrained owing to proprietorship nature of constitution, susceptibility of operating margins due to small size projects and highly competitive civil construction industry.



Description of Key Rating Drivers

Credit Strengths:

- Long track record of the promoters in the construction of road with the Status of “AA” class contractor with Government of Gujarat.
- Healthy pending standalone order book position of Rs. 32.35 crore as on 27.2.2018 providing revenue visibility
- Longstanding client portfolio consisting of Daman, Vapi, Surat local authorities & other private Companies
- Sales is increased with 31% in FY17 in compare to FY16.
- Net profit margin is increased from 4.44% to 7.38%.
- Liquidity is comfortable with Current Ratio @1.62x in FY17.
- Debt protection metrics are comfortable with ISCR @1.82 & DSCR @1.63 in FY17.

Credit Risks:

- Low scale of operation
- Small size contracts are lacking high profitability margins
- Timely completion and delivery as per the contract terms
- OPM is decreased from 28.02% in FY16 to 14.93% in FY17.
- Negative conversion cycle due to delay in payments to suppliers.
- Gearing is moderate with Debt/TNW @1.84 & TOL/TNW @1.37 in FY17.
- working capital-intensive nature of operations and high competition in the fragmented civil construction sector.
- Geographical concentration risk as the operation the firm is limited to Surat & surround areas.
- Business certainty is dependent on the firm's ability to successfully bid for the tenders as entire business is tender based.

Analytical Approach

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

Rating Outlook: *Stable*

BWR believes the **Vama Construction Co** business risk profile will be maintained over the medium term. The ‘Stable’ outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case the revenues and profit show sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down and profit margins show lower than expected figures.



About the Firm :

Vama construction Company was established in 2000 as a proprietorship firm to undertake infrastructure projects including construction of roadworks, hard & soft rock excavation work, Shore Protection Work for Sear Coast Erosion as well River Bank Erosion, Mass earth work for deepening of Ponds, beautification of lakes, river banks as well seashores and construction of check dams.

The firm is promoted & managed by Mr. Vijay H. Patel, who is having vast experience of 25 years in this line of activity. The firm is registered as approved Civil Contractor in AA class category by the Government of Gujarat Irrigation department.

Financial Performance

The firm has achieved the revenue of Rs. 9.06 Crs in FY17 as compare to Rs. 6.87 Crs in FY16. Net profit though thin at absolute levels has increased the margins at ~ 4.44% & 7.38% for FY16 and FY17. Negative conversion cycle at 234 days and tangible net worth Rs. 5.62 Crs in FY17.

Rating History for the last three years

S.No	Instrument /Facility	Current Rating (2018)			Rating History		
		Type	Amount (₹ Crs)	Rating	2017	2016	2015
1	Fund based Overdraft Limit	Long Term	3.00	BWR B (Pronounced as BWR Single B) Outlook : Stable	Not Rated	Not Rated	Not Rated
2	Non Fund Based Bank Guarantee	Short Term	2.00	BWR A4 (Pronounced as BWR A Four)	Not Rated	Not Rated	Not Rated
Total			5.00	₹ Five Crores Only			

Status of non-cooperation with previous CRA (if applicable)-Reason and comments

Care Ratings has migrated the ratings of Vama Construction Company under Issuer non-cooperation as on 8th March, 2018.

Key Financial Indicators

Key Parameters	Units	2017	2016
Result Type		Audited	Audited
Operating Revenue	₹ Cr	9.06	6.87
EBITDA	₹ Cr	1.35	1.93
PAT	₹ Cr	0.67	0.31
Tangible Net worth	₹ Cr	5.62	3.13
Total Debt/Tangible Net worth	Times	1.84	1.13
Current Ratio	Times	1.67	1.01

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Infrastructure Sector](#)
- [Short Term Debt](#)

For any other criteria obtain hyperlinks from website

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Note on complexity levels of the rated instrument:

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, has also been accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a Nationalized Bank, as its promoter and strategic partner.

BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Guwahati, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations. BWR has rated debt instruments/bonds/bank loans, securitized paper of over ₹ 10,00,000 Cr. In addition, BWR has rated over 6300 MSMEs. Also, Fixed Deposits and Commercial Papers etc. worth over ₹24,440 Cr have been rated.

DISCLAIMER

Brickwork Ratings (BWR) has assigned the rating based on the information obtained from the issuer and other reliable sources, which are deemed to be accurate. BWR has taken considerable steps to avoid any data distortion; however, it does not examine the precision or completeness of the information obtained. And hence, the information in this report is presented “as is” without any express or implied warranty of any kind. BWR does not make any representation in respect to the truth or accuracy of any such information. The rating assigned by BWR should be treated as an opinion rather than a recommendation to buy, sell or hold the rated instrument and BWR shall not be liable for any losses incurred by users from any use of this report or its contents. BWR has the right to change, suspend or withdraw the ratings at any time for any reasons.