RATING RATIONALE

10 November 2020

VUB Engineering Private Limited

Brickwork Ratings reaffirms the ratings for the existing bank loan facilities aggregating to ₹ 90.00 Crs of VUB Engineering Private Limited ("VEPL" or "the Company").

Particulars:

Facility***	Amount (₹ Cr)		Tenure	Rating**	
	Previous	Present		Previous (July, 2019)*	Present
Fund based	30.00	30.00	Long Term	BWR BBB-/Stable [Assigned]	BWR BBB-/Stable [Reaffirmed]
Non Fund based	60.00	60.00	Short Term	BWR A3 [Assigned]	BWR A3 [Reaffirmed]
Total	90.00	90.00	INR Ninety Crores Only		

*Rating was moved to Not Reviewed Category in July 2020.
**Please refer to BWR website www.brickworkratings.com/ for definition of the ratings
*** Details of Bank facilities are provided in Annexure-I.

Ratings: Reaffirmed

RATING ACTION / OUTLOOK

The reaffirmation of the rating continues to take comfort from the established track record of the Company and its promoters in executing water resource management infrastructure projects as engineering, procuring and construction (EPC) contractor for around fifteen years. The rating also factors the healthy order book position along with low counterparty credit risk. The rating also considers the improvement in profitability and favourable demand outlook for the water resource management infrastructure projects.

Further, the rating is constrained on account of the moderate scale of operations and is dependent on the successful bidding of tenders floated by the government & semi government entities. The rating is also constrained by the working capital intensive nature of operations; exposure to intense competition from other players and geographic concentration risk.

Outlook: Stable
The outlook continues to remain "Stable" over the near to medium term owing to the extensive experience of promoters, healthy order book position and favourable demand outlook for the water resource management infrastructure projects.

KEY RATING DRIVERS
Credit Strengths:

- **Established track record of the Company and promoted in executing water management infrastructure projects**
  The Company has an established track record of executing water management infrastructure projects including construction of roads, irrigation, dams, bridges, water reservoirs, canals,water treatment plants, pipelines and effluent pipelines etc. from government and semi-government entities for around fifteen years. The Company is registered as a Class I-A category contractor with the State of Maharashtra. The Company is promoted by Mr. Pradeep N. Thakkar who has more than three decades of experience in the civil construction industry. The Company also benefits from a qualified and experienced management team which has helped the Company to successfully bid for projects and completion of the same before the scheduled timeline.

- **Healthy order book position**
  The Company has an healthy unexecuted order book position of Rs. 691.85 crores as on 31.08.2020 and the same is expected to be executed over a period of 28 months; thus providing revenue visibility over the medium term. Further, the customer profile of the Company mainly includes government and semi-government entities including MIDC, BARC, CIDCO and State Irrigation Department etc. in the state of Maharashtra and Rajasthan thereby reducing the counterparty credit risk. Also, the current orders in hand also includes price escalation clause thereby protecting the profitability of the Company against any adverse movement in the raw material prices.

- **Improvement in profitability along with favourable demand for the water resource management projects**
  The Company has reported improvement in the operating margin as the same stood at 9.28% for FY20 (provisional) as against 8.10% in FY19 mainly on account of high margin projects executed by the Company and decline in raw material prices. Further, the government has introduced several schemes at the center and state level including "Jal Shakti Abhiyan" and "Jal Jeevan Mission" to provide safe and adequate drinking water alongwith with water conservation. The EPC contractors are expected to benefit as these projects will require the construction of water resource management infrastructure.

Credit Risks:

- **Moderate scale of operations and tender based nature of operations**
  The Company is a moderately-sized player in the industry as the operating income of the Company stood at Rs. 193.84 crores for FY2019 and Rs. 208.68 crores for FY2020(provisional). Although the Company was out of operations during April and May 2020 due to the COVID-19 pandemic, the Company has been able to ramp up its operations and report around Rs. 102.86 crores during H1FY2021. The Company's current order book position mainly includes orders related to water management infrastructure development projects. Further, the operations of the Company are tender based in nature wherein the scale of operation is dependent on the successful bidding and receipt of orders.
- **Working capital intensive nature of operations**
  The working capital requirement of the Company is higher on account of the stretched receivables days as the same stood at 79 days for FY20(provisional) as against 47 days in FY19 . Further, the Company also requires the working capital to fund the margin money to be placed at the time of bidding, security deposits and other advances. Hence the Company is dependent on its creditors as reflected from the payable days as the same stood at 137 days for FY20(provisional) as against 117 days in FY19. However, the Company has adequate liquidity position as the cash credit limit utilisation stood at around 80% for the period from August 2019 to September 2020 and has also received a short term demand loan of Rs. 2.00 crores from its lender.

- **Exposed to intense competition in a fragmented industry along with geographic concentration risk.**
  The Company operates in a highly competitive environment as it competes with several other EPC contractors in the civil construction industry. Further, around 85% of the outstanding order book as on 31.08.2020 is for the projects in the state of Maharashtra. Hence, the Company is also exposed to the risk associated with geographic concentration.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA
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). BWR has principally relied upon the audited financials up to FY19 and provisional financials for FY20, publicly available information and clarification/information provided by the Company.

RATING SENSITIVITIES

Positive:
- Timely execution of existing orders along with acquisition of new orders
- Improvement in profitability and capital structure

Negative:
- Delay in execution of the projects leading to decline and profitability.
- Elongated working capital cycle leading to stretched liquidity position.

- Majorly debt funded capacity expansion plan resulting in highly leveraged capital structure.

LIQUIDITY POSITION: ADEQUATE

VEPL has reported net cash accruals at Rs. 8.30 Crores for FY 2020 (provisional) as against debt obligation of around Rs. 1.51 Crores. Going forward, the net cash accruals is expected to be sufficient to meet the debt repayment obligation of around Rs. 3.71 Crores expected to be due over the next three years. Further, the average cash credit utilisation is comfortable at around 80.00% for the period from August 2019 to September 2020. The Company also has an unencumbered cash & bank balance of Rs. 7.39 crores as on 31.03.2020. Further, the Company did not avail for the moratorium under the COVID-19 scheme from its lenders as permitted by the RBI. However, the Company has availed short term demand loan of Rs. 2.00 Crores from Bank of Baroda. The Company does not have any ongoing or near-future majorly debt funded capital expenditure plan over the near or medium term.

COMPANY PROFILE

VUB Engineering Private Limited was incorporated in the year 2005 with a registered office located in Mumbai, Maharashtra and is promoted by Mr. Pradeep N. Thakkar and family. The Company is engaged in engineering, procuring and construction (EPC) contractor of civil construction projects including construction of roads, irrigation, dams, bridges, water reservoirs, canals,water treatment plants, pipelines and effluent pipelines etc. The Company is registered as a Class I-A category contractor with the Maharashtra State Public Works Department (PWD). The Company mainly executes projects for government and semi government entities in the State of Maharashtra and Rajasthan. Further, the day to day operations of the Company is handled by Mr. Pradeep N. Thakkar with more than three decades of experience in the civil construction business supported by his son Mr. Chintan Thakkar having more than a decade of experience in the same industry.

KEY FINANCIAL INDICATORS (in ₹ Cr)

Key Parameters	Units	FY2018	FY2019
Result Type		**Audited**	**Audited**
Operating Revenue	Rs. Crs	215.56	193.84
EBITDA	Rs. Crs	16.35	15.69
PAT	Rs. Crs	6.45	7.21
Tangible Net worth	Rs. Crs	51.39	58.60
Total Debt/Tangible Net worth	Times	0.75	0.70
Current Ratio	Times	1.45	1.68

As per FY20 provisional financials, VEPL has reported an operating income of Rs. 208.68 Crores and profit after tax of Rs. 7.07 Crores. VEPL has reported tangible net worth of Rs. 65.68 Crores as against total debt of Rs. 56.67 Crores as on 31.03.2020.

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED
The terms of sanction include standard covenants normally stipulated for such facilities.

NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY :
CARE, vide its press release dated November 15, 2019 had reaffirmed the rating of VEPL as "CARE BBB-/Stable and CARE A3 under ISSUER NOT COOPERATING" and simultaneously withdrawn the rating.

RATING HISTORY FOR THE PREVIOUS THREE YEARS [INCLUDING WITHDRAWAL AND SUSPENDED]

Instrument / Facilities	**Current Rating**			**Rating History**		
	Tenure (Long Term/ Short Term)	Amount (₹ Cr)	Rating	25 July, 2019	2018	2017
Fund Based	Long Term	30.00	BWR BBB-/ Stable (Reaffirmed)	BWR BBB-/Stable (Assigned)	-	-
Non Fund Based	Short Term	60.00	BWR A3 (Reaffirmed)	BWR A3 (Assigned)	-	-
Total		**90.00**	**INR Ninety Crores Only**			

COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria
- **General Criteria**
- **Approach to Financial Ratios**
- **Rating Criteria for Infrastructure Sector**

Analytical Contacts	Investor and Media Relations
Shashikala Hegde **Senior Rating Analyst** Board: +91 22 2831 1426, +9122 2831 1439 Ext: 652 shashikala.h@brickworkratings.com	**Vidya Shankar** **Sr. Director – Ratings** Board: +91 80 40409999 vidyashankar@brickworkratings.com
1-860-425-2742 I media@brickworkratings.com	

VUB Engineering Private Limited

ANNEXURE I

Details of Bank Facilities rated by BWR

Sl. No.	Name of the Bank	Type of Facilities	Long Term (₹ Cr)	Short Term (₹ Cr)	Total (₹ Cr)
1.	Indian Bank	Cash Credit	10.00	-	10.00
2.		Bank Guarantee	-	10.00	10.00^
3.		Letter of Credit	-	5.00	5.00^
4.	Bank of Baroda (Earlier Vijaya Bank)	Cash Credit	20.00	-	20.00^^
5.		Bank Guarantee	-	35.00	35.00^^^
6.		Letter of Credit	-	10.00	10.00^^^
TOTAL					**90.00**

^Includes one way interchangeability from Letter of Credit to Bank Guarantee.
^^Includes interchangeability from Letter of Credit to Bank Guarantee upto Rs. 10.00 crores and from Bank Guarantee to Letter of Credit of Rs. 10.00 crores.
^^^Includes sublimit of working capital demand loan of Rs. 10.00 crores.

Total Rupees Ninety Crores only.

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