

**Press Release**

**Varsha Construction (VC)**

May 11, 2019

**Rating**

<b>Instrument / Facility</b>	<b>Amount (Rs. crore)</b>	<b>Rating</b>	<b>Rating Action</b>
Long Term Fund Based Facility – Overdraft / Cash Credit	7.00*	IVR BB+/Stable Outlook (IVR Double B plus with Stable Outlook)	Assigned
Long Term / Short Term Non-Fund Based Facility – Bank Guarantee	8.00 <sup>#</sup>	IVR BB+/Stable Outlook (IVR Double B plus with Stable Outlook) / IVR A4+ (IVR A Four plus)	
<b>Total</b>	<b>15.00</b>		

*\*OD / CC facility includes proposed facility of Rs.3.00 crore*

*<sup>#</sup>Bank guarantee facility includes proposed facility of Rs.5.00 crore*

**Details of Facilities are in Annexure I**

**Detailed Rationale**

The rating of Varsha Construction (VC) derives comfort from the experienced promoters, moderate profitability and debt protection metrics and strong relationship with clients. The rating also takes into consideration the small scale of operations, risk of withdrawal of capital and exposure to risks relating to cyclicalities in real estate industry. Profitability, maintaining debt metrics and timely completion of the project within the envisaged costs are the key rating sensitivities.

**Detailed Description of the Key Rating Drivers**

**Key Rating Strengths**

**Experienced Promoters**

VC was set-up as a partnership firm in 1989, by Mr. Kamal Chand Jain, who has over 35 years of experience in the field of infrastructure contract work. The firm has completed a number of civil contracts in Defence and housing construction for Military Engineering Services (MES), Chhattisgarh Housing Board (CGHB), HSCC (India) Ltd (erstwhile Hospital Services Consultancy Corporation Limited), Nagar Nigam Raipur (NNR), Naya Raipur Development Authority (NRDA) and Police Housing Corporations, among others.

**Moderate profitability and debt protection metrics**

The EBITDA margin of VC for FY18 stood at 5.97%, as compared to 6.77% for FY17. The firm reported PAT margin of 4.05% for FY18 as compared to 4.79% for FY17, indicating

moderate profitability. The Overall Gearing Ratio as on March 31, 2018 stood at 1.11x, while Total Debt to GCA stood at 3.71x as compared to 1.42x and 3.73x, respectively, a year ago. The interest coverage was 3.23x for FY18 (Previous year – 3.31x).

### **Strong relationship with clients**

VC has executed a lot of projects for reputed clients and has been able to build strong relationships with them. This has led to a lot of repeat business from them.

### **Key Rating Weaknesses**

#### **Small scale of operations**

VC has been operating for almost 3 decades. But, its scale of operations are still small, with the firm having posted total annual revenue of Rs.35.5 crore for FY18, up from Rs.26.9 crore for FY17. The net worth of the firm as on March 31, 2018 FY18 stood at Rs.5.6 crore.

#### **Risk of withdrawal of capital**

VC is a partnership firm, which is constitutionally weak as there is no restriction on the withdrawal of capital. Any withdrawal of capital from the firm could further weaken the capital structure of the firm.

#### **Exposure to risks relating to cyclicity in real estate industry**

Cyclicity in the real estate segment could lead to fluctuations in cash inflow because of volatility in realisation and saleability. This may impact the debt servicing ability of the company. VC will remain susceptible to the inherent cyclicity in the real estate sector.

### **Analytical Approach & Applicable Criteria**

- Standalone Approach
- Rating Methodology for Infrastructure Companies
- Financial Ratios & Interpretation (Non-Financial Sector)

### **Liquidity**

The firm does not have any term loan obligations. The entity is carrying on a construction contracting business and the profitability margins are moderate. However, the cash accruals are sufficient to ensure servicing of the interest outgo.

**About the Firm**

Varsha Construction (VC) was established as a partnership firm in 1989. The firm was set-up by Mr. Kamal Chand Jain (40% profit sharing partner), who has over 38 years of experience in the field of infrastructure contract work. It is engaged in execution of civil contracts in defence and housing construction in Chhattisgarh. VC posted total revenue of Rs.35.5 crore and PAT of Rs.1.4 crore in FY18.

**Financials (Standalone)**

(Rs. crore)

<b>For the year ended/ As On</b>	<b>31-03-2017 (Audited)</b>	<b>31-03-2018 (Audited)</b>
Total Operating Income	26.9	35.5
EBITDA	1.8	2.1
PAT	1.3	1.4
Total Debt	5.6	6.2
Tangible Net worth	3.9	5.6
<b><u>Ratios</u></b>		
EBITDA Margin (%)	6.8	6.0
PAT Margin (%)	4.8	4.0
Gearing Ratio (x)	1.4	1.1

Note: Classification as per Infomerics' standards

**Status of non-cooperation with previous CRA:** CRISIL has moved the rating of VC to the 'ISSUER NOT COOPERATING' category due to non-submission of information required for conducting the review of the rating as per Press Release dated October 31, 2018.

**Any other information:** Not applicable

**Rating History for last three years:**

Sl. No.	Name of Instrument /Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1	Fund Based Facility – Overdraft / Cash Credit	Long Term	7.00	IVR BB+/Stable Outlook (IVR Double B plus with Stable Outlook)	--	--	--
2	Non-Fund Based	Long Term /	8.00	IVR BB+/Stable Outlook (IVR Double B plus with Stable			

Facility – Bank Guarantee	Short Term		Outlook) / IVR A4+ (IVR A Four plus)			
---------------------------------	---------------	--	--	--	--	--

**Note on complexity levels of the rated instrument:** Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at [www.infomerics.com](http://www.infomerics.com).

### Name and Contact Details of the Rating Analyst:

Name: Mr. Sriram Rajagopalan

Tel: (022) 62396023

Email: [srajagopalan@infomerics.com](mailto:srajagopalan@infomerics.com)

### About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

**Disclaimer:** Infomerics ratings are based on information provided by the issuer on an 'as is where is' basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change, suspend or withdraw the credit ratings at any point in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

**Annexure 1: Details of Facilities**

<b>Name of Facility</b>	<b>Date of Issuance</b>	<b>Coupon Rate/ IRR</b>	<b>Maturity Date</b>	<b>Size of Facility (Rs. Crore)</b>	<b>Rating Assigned/ Outlook</b>
Overdraft / Cash Credit Facility	--	10.80%	--	7.00	IVR BB+/Stable Outlook (IVR Double B plus with Stable Outlook)
Bank Guarantee	--	--	--	8.00	IVR BB+/Stable Outlook (IVR Double B plus with Stable Outlook) / IVR A4+ (IVR A Four plus)