May 29, 2023

Versatile Alucast Private Limited: Rating Reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term-Fund Based-Cash Credit	6.4	6.4	[ICRA]B(Stable); Reaffirmed
Long Term-Fund Based-Term Loan	11.1	11.1	[ICRA]B(Stable); Reaffirmed
Total	**17.5**	**17.5**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation considers Versatile Alucast Private Limited's (VAPL) steady annual revenue growth of ~30% in FY2022 and 2023, which is expected to remain healthy in the near term. In FY2023, VAPL was involved in product development for various new customers, regular orders from which are expected to result in a healthy revenue growth in the near term. The operating margins, however, were impacted in the last two fiscals due to an increase in raw material cost. In the current year, the operating margins are expected to improve with stabilisation of aluminium prices. The ratings are also constrained by small scale of operations in a highly fragmented auto component machining industry. The client concentration risks are also high as a single customer accounted for ~43% of total revenues in FY2023. Moreover, VAPL's capital structure remains adverse due to its low net worth on account of limited accretion to reserves over the years. The debt coverage indicators and liquidity position remain stretched with limited cash surplus available against its debt servicing obligations. Generation of sufficient net cash accruals and availability of free cash and undrawn lines of credit will remain critical for debt repayment. ICRA notes that the company also remains exposed to the cyclicality inherent in the auto industry and volatility in prices of its primary raw material, aluminium.

The rating, however, positively factors in the extensive track record of the promoters with an experience of over four decades in the auto component manufacturing business and its established relationship with reputed domestic and international OEMs. VAPL derives financial support from the Directors through unsecured loans, which help the company tide over any liquidity mismatch to an extent.

The Stable outlook reflects ICRA's opinion that VAPL will continue to benefit from the experience of the promoters in the auto component industry and its established relationship with reputed OEMs.

Key rating drivers and their description

Credit strengths

Established track record of promoters in auto components industry – VAPL was established in 2012 and is involved in machining of aluminium casting components for the auto industry. It is a part of the Kolhapur-based Versatile Group, which has an established track record in the auto components industry for more than four decades. The directors, Mr. Yatin Janwadkar, a mechanical engineer, and his son, Mr. Prabhakar Janwadkar, have over a decade of experience in the auto machining industry.

Established relationship with reputed OEMs – VAPL caters to the players in the automobile industry in passenger vehicles, commercial vehicles, and tractors segments, such that each segment does not exceed ~30% of the total revenues at any point of time. Since FY2023, the company has been working for components in the electric vehicle space, regular orders for which are expected to come from the current year. Moreover, VAPL has established relationship with the OEMs, resulting in repeat orders.

Credit challenges

Leveraged capital structure with weak coverage indicators and stretched liquidity position – VAPL's capital structure remains leveraged due to low net worth on account of limited accretion to reserves over the years. However, ICRA notes that total debt includes unsecured loans availed from the Directors, which are interest free in nature and have no repayment schedule. Owing to low absolute profits, coverage indicators remain moderate with an interest cover of ~2.0 times and TD/OPBITDA of ~8 times in FY2023.

The working capital utilisation remained high and stood at an average of ~98% of the sanctioned limits during the 12-month period ending in March 2023. VAPL's debt coverage metrics are expected to be under pressure in the near term. Sufficient net cash accruals, availability of free cash, and undrawn lines of credit will remain critical for debt repayment.

Small scale of operations – With a turnover of Rs. 49 crore in FY2023, the company has a small scale of operations in the industry. However, ICRA notes that the company has increased its capacity to ~3,200 MTPA from ~1,300 MTPA in FY2017, which is expected to support its revenue in the near-to-medium term.

High client concentration risks – VAPL's client concentration risks remain high. In FY2023, one customer accounted for ~43% of total revenues. However, in FY2023, the company conducted testing of various components for many new customers, regular orders for which are expected to start coming from the current year.

Exposed to intense competition and fluctuations in raw material prices – The auto component machining industry in India is highly fragmented with the presence of many unorganised players, which leads to pricing pressure. Additionally, the primary raw material for the company is aluminium, the price of which remains volatile in nature. While the fluctuations in prices are passed on to the customers with quarterly price revisions, VAPL's margins remain susceptible to the raw material price movement.

Liquidity position: Stretched

VAPL's liquidity is stretched with marginal cash flow from operations, limited buffer in undrawn working capital limit, along with scheduled repayment obligation from its total external loan worth ~Rs. 11 crore in FY2023 (estimated). The average utilisation level for the last 12 months (period ending in March 2023) stood at a high level of ~98%. The sufficiency of cash accruals and better profitability remain critical for improvement in the liquidity profile.

Rating sensitivities

Positive factors – A sustained improvement in the capacity utilisation level along with an improvement in the profitability and the liquidity position may result in a rating upgrade. Specific trigger could be an interest cover of >2 times on a sustained basis.

Negative factors – Any further deterioration in the capacity utilisation levels, revenues, profit margins and/or the liquidity position could trigger a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology](#)
Parent/Group support	Not Applicable

Consolidation/Standalone	Standalone financials have been considered.

About the company

Established in 2012, Versatile Alucast is a part of the Versatile Group, involved in manufacturing of aluminum casting components. It has a total capacity to produce ~3,200 MTPA, which was gradually increased from ~1,300 MTPA in 2017. VAPL supplies various components to a large base of customers, mainly to the automobile sector.

Key financial indicators (audited)

Standalone	FY2022	FY2023*
Operating income	36.7	48.9
PAT	-0.0	0.7
OPBDIT/OI	6.2%	7.6%
PAT/OI	-0.1%	1.4%
Total outside liabilities/Tangible net worth (times)	16.1	17.0
Total debt/OPBDIT (times)	12.8	7.9
Interest coverage (times)	1.9	2.0

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore *Provisional*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31,2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					May 29,2023	-	Mar 10,2022	-
1	Term Loan	Long-term	11.1	10.7	[ICRA]B (Stable)	-	[ICRA]B (Stable)	-
2	Cash credit	Long-term	6.4	6.0	[ICRA]B (Stable)	-	[ICRA]B (Stable)	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term Loan	Simple
Long-term fund-based – Cash Credit	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Term Loan**	FY2018-FY2022	10.25%	FY2029	11.1	[ICRA]B (Stable)
NA	**Cash Credit**	-	10.25%	-	6.4	[ICRA]B (Stable)

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA.

Annexure II: List of entities considered for consolidated analysis – Not applicable.

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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