

August 30, 2024

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	6.40	6.40	[ICRA]B (Stable); reaffirmed
Long term – Fund-based - Term loan	11.10	11.10	[ICRA]B (Stable); reaffirmed
Total	17.50	17.50	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation considers an improvement in Versatile Alucast Private Limited's (VAPL) operating margins to 7.4% in FY2024 (on a provisional basis) from 2.3% in FY2023, marked by capacity addition, product development, addition of new customers and stabilisation of raw material cost. The company's profitability and revenues are expected to remain stable in the near to medium term. The rating continues to positively factor 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 rating, however, remains constrained by the company's 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 ~49% of the total revenues in FY2024. Moreover, VAPL's capital structure remains adverse due to its low net worth on account of the 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 the 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 cyclicity inherent in the auto industry and the volatility in the prices of its primary raw material, aluminium.

The Stable outlook on the long-term rating reflects ICRA's opinion that the entity is likely to maintain its revenue and profitability, supported by a favourable demand for its products from the end-user segment and its established relationship with reputed OEMs.

Key rating drivers and their description

Credit strengths

Long track record of promoters in auto components industry – VAPL was established in 2012 and is involved in the 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's experience in the auto machining industry.

Established relationship with reputed OEMs – VAPL caters to automobile players in the passenger vehicles, commercial vehicles and tractor segments. Each segment does not exceed ~30% of the total revenue at any point of time. The company has started working for components in the electric vehicle space, which has resulted in increased orders. 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 its low net worth on account of the 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 the low absolute profits, the coverage indicators remain moderate with an interest cover of 2.2 times and TD/OPBITDA of 6.4 times in FY2024 (provisional).

The working capital utilisation remained high and stood at an average of ~97% of the sanctioned limits during the 12-month period ended March 2024. VAPL’s debt coverage metrics are expected to be under pressure in the near term. Sufficient net cash accruals and the availability of free cash and undrawn lines of credit will remain critical for debt repayment.

Small scale of operations – The company has a small scale of operations in the industry with a turnover of Rs. 54 crore in FY2024 (provisional). 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 FY2024, one customer accounted for ~49% of the total revenues. Also, the company conducted the 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 limits, along with scheduled repayment obligations. The average utilisation level for the last 12 months (period ending in March 2024) stood at a high ~97%. The sufficient cash accruals and better profitability remain critical for the liquidity profile to improve.

Rating sensitivities

Positive factors – A sustained improvement in the capacity utilisation level, profitability and liquidity position may result in an upgrade. A specific trigger could be an interest cover of more than 2 times on a sustained basis.

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

Versatile Alucast, established in 2012, is a part of the Versatile Group. It manufactures 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 customer base, mainly to the automobile sector.

Key financial indicators (audited)

Standalone	FY2022	FY2023	FY2024*
Operating income	36.7	51.2	54.1
PAT	-0.0	-1.7	0.2
OPBDIT/OI	6.2%	2.3%	7.4%
PAT/OI	-0.1%	-3.3%	0.3%
Total outside liabilities/Tangible net worth (times)	16.1	44.1	38.9
Total debt/OPBDIT (times)	12.8	26.9	6.4
Interest coverage (times)	1.9	0.9	2.2

Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current (FY2025)			Chronology of rating history for the past 3 years					
	Type	Amount rated (Rs crore)	Aug 30, 2024	FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating
Term loan	Long-term	11.10	[ICRA]B (Stable)	29-May-23	[ICRA]B (Stable)	-	-	10-Mar-22	[ICRA]B (Stable)
Cash credit	Long-term	6.40	[ICRA]B (Stable)	29-May-23	[ICRA]B (Stable)	-	-	10-Mar-22	[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		FY2029	11.10	[ICRA]B (Stable)
NA	Cash credit	-		-	6.40	[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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