Veljan Denison Limited

Instrument	Amount In Rs. Crore	Rating Action
Cash Credit	30.00 (revised from Rs.25.00)	[ICRA]BBB+(Stable) Reaffirmed
Bank Guarantee	7.00 (revised from Rs.4.00)	[ICRA]BBB+(Stable) Reaffirmed
Letter of Credit	6.00 (reduced from Rs.9.00)	[ICRA]A2 Reaffirmed
Unallocated	0.00 (reduced from Rs.1.00)	

ICRA has reaffirmed the long term rating of [ICRA]BBB+ (pronounced ICRA triple B plus) assigned to the Rs.30.00 crore[1] (revised from Rs.25.00 crore) working capital limits, Rs.7.00 crore (revised from Rs.4.00 crore) bank guarantee of Veljan Denison Limited (VDL)[2] and reaffirmed the short-term rating of [ICRA]A2 (pronounced ICRA A two) assigned to Rs. 6.00 crore (reduced from 9.00 crore) letter of credit of VDL. The outlook on the long term rating is Stable.

The reaffirmation of ratings takes into account long standing experience of VDL as manufacturer of vane based hydraulic pumps, valves and power pack systems; and established position of VDL as a recognized vendor with the Original Equipment Manufacturer (OEM) customers, government agencies coupled with large dealer network in India and abroad. The ratings also favorably factor in strong capital structure of the company with a gearing of 0.26 times, interest coverage of 12.61 times for FY2016 and comfortable liquidity position of the company as reflected by low utilization of working capital limits in the past 17 months. ICRA also notes the company's low dependence on imported raw material combined with indigenous manufacturing of the individual components results in a considerable cost advantage and thereby healthy profitability margins over the years.

However, the ratings are constrained by the modest scale of operations of VDL with revenues of Rs 80.36 crore for FY2016; dip in operating margins from 28.13% in FY2015 to 26.85% in FY2016 on account of increased manufacturing overheads; and increased working capital intensity of the business with NWC/OI of 112% for FY2016 on account of high lead time for export sales and high inventory holdings. Further the revenues have been stagnant at around Rs 80.00 crore for the past 2 years owing to weak export demand and slowdown in end user industries. ICRA notes the vulnerability of the company sales to economic downturns given the capital nature of its products and company's acquisition plan of around Rs.15.00 crore to buy an overseas manufacturing unit in the near term which is proposed to be funded entirely from internal accruals.

Going forward, the ability of the company to improve its scale of operations, maintain the profitability and manage its working capital intensity will be key rating sensitivities from credit perspective.

Company Profile

Veljan Denison Limited (VDL), incorporated in 1973 is a listed company that manufactures Hydraulic vane pumps, motors, valves and power pack systems. The company has its manufacturing unit in Patancheru, Hyderabad. The company was promoted by Mr. V C Janardan Rao, a qualified engineer with specialization in Fluid Power. The company indigenously manufactures precision engineering components and has its own Research and Development (R & D) wing.

Recent Results

For FY2016, VDL has reported an operating income of Rs. 80.36 crore and net profit of Rs.12.54 crore as against an operating income of Rs. 79.35 crore and net profit of Rs.13.04 crore in FY2015. For Q1 FY2017 (unaudited), the company reported an operating income of Rs.21.32 crore and net profit of Rs.3.65 crore.

September 2016

[1] 100 lakh = 1 crore = 10 million

[2] For complete rating scale and definitions, please refer to ICRA's website http://www.icra.in or other ICRA Rating Publications.

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