November 21, 2017

Veljan Denison Limited

Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Fund based – Cash Credit	32.00 (revised from 30.00)	[ICRA]BBB+ (Stable) reaffirmed
Fund based – Term Loan	12.00 (revised from 0.00)	
Non Fund based – Bank Guarantee	7.00	
Non Fund based – Letter of Credit	6.00	[ICRA]A2 reaffirmed
Total	**57.00 (enhanced from 43.00)**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long term rating of [ICRA]BBB+ (pronounced ICRA triple B plus) to the Rs. 44.00 crore[1] fund based limits and Rs. 7.00 crore non fund based limits of (VDL or the company)[2]. ICRA has also reaffirmed the short term rating of [ICRA]A2 (pronounced ICRA A two) to the Rs. 6.00 crore non fund based limits of the company. The outlook on the long-term rating is 'stable'.

Rationale

The rating reaffirmation positively factors in the long standing experience as manufacturer of vane based hydraulic pumps, valves and power pack systems; well diversified customer base of the company comprising of both domestic and oversea customers; and established position as a recognized vendor with the Original Equipment Manufacturers (OEMs) and large dealer network. The ratings also consider strong financial risk profile of the company with operating profit margin (OPM) of 27.98% in FY2017 owing to low dependence on imported raw material, gearing of 0.30 times as on March 31, 2017, interest coverage of 12.92 times, and NCA/total debt of 50% in FY2017. However, the ratings are constrained by modest scale of operation with revenues of Rs. 82.59 crore in FY2017; stagnant revenues at around Rs 80 crore for the past three years; muted OI of Rs. 17.62 crore in H1FY2017 ; and high working capital intensity of the business with NWC/OI of 105% for FY2017 on account of high receivables from export sales and high inventory holdings. The ratings also factor in the increase in debt level expected in FY2018 to setup new casting facility.

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

Key rating drivers

Credit strengths

- **Long standing experience of the promoters in the manufacturing of hydraulic pumps, valves and power pack systems:** VDL has around four decades of experience in manufacturing of vane based hydraulic pumps, valves and power pack systems. The company has been able to establish its position as a recognized vendor with the Original Equipment Manufacturers (OEMs) like Action Construction Equipment Limited, Escorts Limited and large dealer network.
- **Strong financial profile:** The company has reported healthy profitability over the years with OPM of 27.98% in FY2017 owing to the company's better bargaining capability for indigenously procured raw materials , gearing of 0.30 times as on March 31, 2017 and interest coverage of 12.92 times in FY2017.

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[1] *100 lakh = 1 crore = 10 million*

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

Credit weaknesses

- **Increased working capital intensity:** The business is highly working capital intensive with NWC/OI at 105% in FY2017 owing to high debtor days and inventory days. The company keeps high inventory for critical raw materials like castings and vanes owing to their limited availability.
- **Stagnant increase in OI during the past three years:** The company has a small scale of operation with OI stagnant at around Rs. 80.00 crore for the past 3 years.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below**.**

Links to applicable criteria:
[Corporate Credit Rating Methodology]

About the company:
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.

In FY2017, the company reported net profit of Rs.14.53 crore on an operating income of Rs. 82.59 crore as compared to net profit of Rs. 12.54 crore on an operating income of Rs. 80.36 crore in FY2016.

Key Financial Indicators

	FY2016	**FY2017**	**Q1FY2018**
	Audited	**Audited**	**Provisional**
Operating Income (Rs. crore)	80.36	82.59	17.62
PAT (Rs. crore)	12.54	14.53	2.76
OPBDIT/ OI (%)	26.85%	27.98%	28.10%
RoCE (%)	16.24%	15.31%	-
Total Debt/ TNW (times)	0.26	0.30	-
Total Debt/ OPBDIT (times)	1.22	1.47	-
Interest coverage (times)	12.61	12.92	15.63
NWC/ OI (%)	107%	105%	-

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress);
NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:

Table:

S. No.	Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
				November 2017	October 2016	October 2015	April 2014
1	Cash Credit	Long Term	32.00	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB + (Stable)
2	Term Loan	Long Term	12.00	[ICRA]BBB+ (Stable)	-	-	-
3	Bank Guarantee	Long Term	7.00	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB + (Stable)
4	Letter of Credit	Short Term	6.00	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2

Complexity level of the rated instrument:
ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1

Instrument Details

Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
Term loan	To be Sanctioned	-	-	12.00	[ICRA]BBB+ (Stable)
Cash Credit	-	10.50%	-	13.00	[ICRA]BBB+ (Stable)
Cash Credit	-	12.80%	-	19.00	[ICRA]BBB+ (Stable)
Bank Guarantee	-	-	-	7.00	[ICRA]BBB+ (Stable)
Letter of Credit	-	-	-	6.00	[ICRA]A2

Source: the company

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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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit **www.icra.in**

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