Veljan Denison Limited

December 24, 2018

Summary of rating action

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based-Cash Credit	32.00	32.00	[ICRA]BBB+ (Stable); reaffirmed
Fund Based- Term Loan	12.00	12.00	[ICRA]BBB+ (Stable); reaffirmed
Non Fund Based – Bank Guarantee	7.00	7.00	[ICRA]BBB+ (Stable); reaffirmed
Non Fund Based – Letter of Credit	6.00	6.00	[ICRA]A2 reaffirmed
Total	**57.00**	**57.00**	

*Instrument details are provided in Annexure-1

Rationale

The ratings reaffirmation positively factors in VDL's established track record as manufacturer of vane based hydraulic pumps, valves and power pack systems; diversified customer base comprising of both domestic and oversea customers; and strong financial risk profile of the company with gearing of 0.17 times as on March 31, 2018, healthy interest coverage of 24.95 times, NCA/total debt of 50% in FY2018. The ratings also consider healthy operating profit margin of 28.95% in FY2018 owing to low dependence on imported raw material and comfortable liquidity profile with liquid surplus of Rs. 35.47 crore as on March 31, 2018 despite high working capital intensity of the business. The working capital intensity is high at 91% in FY2018 owing to high debtor and inventory levels. Further, average utilisation of working capital limits is moderate at 39% in the past 12 months. However, the ratings are constrained by muted revenues of Rs. 32.14 crore in H1FY2019 given the plant was shut down in Q1FY2019 for maintenance purpose; and additional loan towards funding of celluloid coil manufacturing unit and setting of casting facility in FY2019 and FY2020 to adveresely impact the debt coverage indicators.

Going forward, ability of the company to improve the revenues, maintain the profitability and manage working capital requirements by recovering its receivables from its group company Veljan Hydrair Limited will be key rating sensitivities from credit perspective.

Outlook: Stable

The Stable outlook reflects ICRA belief that VDL will benefit from its established track record in the hydraulic pumps manufacturing industry. The outlook may be revised to 'Positive' if the revenue and profits improve along with recovery of payments from its group company Veljan Hydrair Limited. The outlook may be revised to 'Negative' if financial position of the company weakens with decline in profitability and weakening of the liquidity position.

Key rating drivers

Credit strengths

Established track record in the manufacturing of hydraulic pumps and valves: The company has around four decades of experience in manufacturing of vane based hydraulic pumps, valves and power pack systems. The company exports its products to countries like USA, Australia and Middle east and domestically to OEMs like Escorts Construction Equipment Limited, Action Construction Equipment Limited.

Geographically diversified customer base: The company has a diversified customer base with presence in both domestic and export sales. The company exports to countries like USA, Italy, Australia and middle east countries. The customer base of the company comprises of Original Equipment Manufacturers (OEMs) like Action Construction Equipment Limited, Escorts Limited and has a large domestic dealer network.

Strong financial risk profile: The profitability margins are healthy over the years with OPM of 28.95% in FY2018 owing to lower cost of production along with healthy realisation from export markets. The financial risk profile is comfortable with gearing of 0.17 times as on March 31, 2018, interest coverage of 24.95 times, Debt/OPBDIT at 0.79 times in FY2018.

Credit challenges

High working capital intensity: The business is highly working capital intensive with NWC/OI at 91% in FY2018 owing to high debtor days and inventory days. The company keeps high inventory for major raw materials like castings and vanes owing to long lead time in procurement. Around 80% of the debtors is from its group company Veljan Hydrair Ltd. However the company has low dependence on working capital borrowings and the liquidity position remains comfortable with average utilisation of 39% in the past 12 months and liquid cash balances of Rs. 32.70 crore as on September 30, 2018.

Highly competitive industry – The margins of VDL is exposed to fluctuation in raw material prices and competitive industry from cheaper imports.

Decline in revenue in H1FY2019 – The operating income of the company declined to Rs. 32.14 crore in H1FY2019 compared to Rs. 40.78 crore in H1FY2018 mainly because the plant was shut down for few days in Q1FY2019 for maintenance purpose.

Liquidity Position:

The liquidity position of the company is comfortable with liquid cash balances of Rs. 32.70 crore as on September 30, 2018. Also the average working capital limit utilisation is moderate at 39% in the past 12 months ending November 2018.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation / Standalone	Standalone

About the company:

Incorporated in 1973, Veljan Denison Limited (VDL) is a listed company on BSE 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 FY2018, the company reported a net profit of Rs. 16.28 crore on an operating income of Rs. 96.21 crore, as compared to a net profit of Rs. 14.51 crore on an operating income of Rs. 76.87 crore in FY2017.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	76.87	96.21
PAT (Rs. crore)	14.51	16.28
OPBDIT/OI (%)	30.01%	28.95%
RoCE (%)	15.31%	17.44%
Total Debt/TNW (times)	0.30	0.17
Total Debt/OPBDIT (times)	1.48	0.79
Interest coverage (times)	12.76	24.95

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Type	Amount Rated (Rs. crore)	Current Rating (FY2019)		Chronology of Rating History for the past 3 years		
				Amount Outstanding (Rs. Crore)	Date &Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
					December 2018	November 2017	October 2016	October 2015
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	12.00	[ICRA]BBB+ (Stable)	[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

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loan	Jan-2015	10.01%	2020	12.00	[ICRA]BBB+ (Stable)
NA	Cash Credit (HDFC Bank)		10.18%	-	13.00	[ICRA]BBB+ (Stable)
NA	Cash Credit (Canara Bank)		12.25%	-	19.00	[ICRA]BBB+ (Stable)
NA	Bank Guarantee		-	-	7.00	[ICRA]BBB+ (Stable)
NA	Letter of Credit		-	-	6.00	[ICRA]A2

Source: Veljan Denison Limited

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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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