May 30, 2023

Victora Industries Private Limited (formerly known as Victora Tool Engineers Private Limited): Ratings assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term/ Short-term – Cash Credit	75.00	[ICRA]BBB (Stable)/[ICRA]A3+; assigned
Long-term – Cash Credit	25.00	[ICRA]BBB (Stable); assigned
Long-term – Term Loans	153.00	[ICRA]BBB (Stable); assigned
Short-term – Non-fund Based	5.00	[ICRA]A3+; assigned
Long-term – Unallocated	27.00	[ICRA]BBB (Stable); assigned
Total	**285.00**	

**Instrument details are provided in Annexure-I*

Rationale

The assigned rating considers the significant experience of the promoters in the auto ancillary industry and Victora Industries Private Limited's (VIPL) established position as a sheet metal component supplier to reputed original equipment manufacturers (OEMs) and their tier-I vendors in the domestic and export markets. VIPL has reported healthy revenue growth after the pandemic, led by strong demand for passenger vehicles (PVs) and two-wheelers (2Ws). The rating also takes cognisance of VIPL's established customer profile, which includes Maruti Suzuki India Limited (MSIL), MG Motors, JCB India Limited (JCB), and reputed tier-I vendors like FCC Rico (Honda Group), Hero Group and Caparo Maruti, along with its in-house tool manufacturing capabilities. Further, the revenue growth and profitability revived significantly in FY2023 in Victora Hospitalities Private Limited (VHPL), a 51% subsidiary of VIPL, which runs a five-star hotel in Greater Noida, Uttar Pradesh. ICRA expects VIPL's business profile to improve with the addition of new OEM customers with a better product mix in the near-to-medium term.

However, the rating is constrained by VIPL's moderate financial profile and return indicators due to its large debt-funded capex in recent years. VIPL's DSCR and total debt/OPBDITA stood at 1.1 times and 3.8 times, respectively, in FY2023 (estimated). The company is in the process of adding new capacities for new OEMs, which will be partly debt-funded. ICRA expects debt coverage indicators to improve with improving operating profit and limited increase in debt, amid ongoing repayments. The company has a high repayment burden in FY2024; however, cash generation from business is likely to be sufficient for the timely repayment. Going forward, VIPL's ability to timely complete the ongoing capex, ramp up capacity and generate adequate returns will be crucial. Its high dependence on MSIL and the intensely competitive auto components industry limits its pricing power; however, the company's plan to add new customers in the near to medium term would mitigate the risk to an extent.

The Stable outlook on VIPL's ratings reflects ICRA's opinion that the company's revenue and profit growth would be supported by a healthy demand for PVs and 2Ws, along with the acquisition of new clients, especially for recently launched PV models and increasing export orders.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters; established track record in auto ancillary industry – The promoters have been involved in the auto ancillary business for more than five decades. The Banga family had established VIPL in 1972 as a proprietorship business. Mr. Satbir Singh Banga, the third generation of the family, looks after the day-to-day operations of the company, supported by a professional management team.

Established relationships with reputed customers in the automobile industry – VIPL's manufactures sheet metal components for various domestic and overseas customers in the automobile industry. VIPL's clientele includes reputed players from the PV, 2W, tractor, agriculture equipment and construction equipment industries. Its major customers are MSIL and its various group companies, JCB, MG Motors, Plastic Omnium Auto Energy, Adient India Private Limited, International Tractors Limited (Sonalika), Rane NSK, etc. The company has been deriving ~60-70% of its revenues from the PV industry, ~10-15% from 2Ws and the balance from tractors and construction equipment. The company is also planning to add two new key customers from the domestic PV sector in the near-term, which will further strengthen its client profile.

Healthy revenue growth owing to healthy demand in PV industry and expansion of client portfolio – VIPL has reported healthy revenue growth of ~53% in FY2022 and ~8% in FY2023 led by strong revival of the domestic PV industry. Its key customer, MSIL's volume has increased by ~21% in FY2023. Going forward, VIPL's growth momentum is likely to continue aided by healthy demand from the automobile industry, while revenue growth is expected to be moderate owing to a higher revenue base in FY2023. MSIL currently contributes ~60% (directly or indirectly) of VIPL's total revenue. The addition of two new customers would support revenue expansion and ease the client concentration risk to an extent. The company is expected to earn higher profit margin from the prospective customers on account of the criticality of the components and the early association with them for their Pune and Sanand manufacturing plants.

Revival of hospitality business in FY2023 after weak FY2021 and FY2022 – VHPL, a 51% subsidiary of VIPL, runs a five-star hotel under the hospitality brand, Radisson Blu, at Pari Chowk in Greater Noida. VHPL's performance was significantly weakened during FY2021 and FY2022 due to the pandemic. However, there has been a strong revival in performance during FY2023, with healthy occupancy rate and increase in average room rate (ARR), which ultimately led to a healthy OPM of ~32%. VIPL originally held 100% stake in VHPL, of which 49% was sold to the promoter family in March 2023.

Credit challenges

Regular debt-funded capex led to moderate financial profile and modest returns indicators; expected to improve gradually – VIPL has been incurring regular capex, in line with the requirement from OEMs, given the substantial investment needed in plant and machinery. Also, the company has added new customers in the last couple of years, which has led to an additional capex. However, owing to the slowdown in the auto sector followed by pandemic related stress, returns have been inadequate, although improving over FY2022 and FY2023. Moreover, to keep its manufacturing facility near its OEM client facilities, the company is establishing two new facilities exclusively for the two news customers. VIPL's profit margin is largely stable because of a price escalation clause with key customers, although there is a time lag while receiving it from the customers. Given that the capex debt has a relatively short tenor, the company had a moderate DSCR and coverage metrics in the last 3-4 years. Going forward, the DSCR and coverage metrics are expected to improve gradually on account of repayment of its existing term loans, improving operating profits and no major increase in overall debt levels. The returns indicators are also moderate due to pending ramp-up of scale in VIPL.

High client-concentration risk – VIPL's revenue growth is mainly dependent on orders from MSIL. Its top five customers drove~60-70% of its total revenues, while MSIL drove ~55-60%, directly or indirectly. However, the risk is mitigated to an extent by MSIL's leading position in the PV industry and VIPL's long-term association with its clients along with its ongoing efforts to expand its customer portfolio.

Intensely competitive industry limits pricing power – The auto ancillary industry is intensely competitive due to the presence of various organised and unorganised players. This limits the pricing power of industry players and keeps profitability under check. The hotel business is also competitive as well as cyclical with a large share of revenues coming from corporate clients.

Liquidity position: Adequate

VIPL's liquidity position is **adequate**, supported by expected healthy cash generation from business and buffer of Rs. 20-25 crore in its working capital limit, which is likely to be sufficient for repaying the term loans and additional working capital requirement, if any. The company has a repayment liability of ~Rs. 50 crore in FY2024. It has also planned capex of ~Rs. 160-165 crore in FY2023-FY2025, for which will be funded by ~70-80% from term debt. The promoters are also expected to provide funding support as and when needed, as witnessed in the past.

Rating sensitivities

Positive factors – ICRA could upgrade VIPL's ratings if there is a sustained improvement in debt coverage metrics and liquidity position. Specific credit metrics that may lead to a rating upgrade include DSCR more than 1.8 times on a sustained basis.

Negative factors – A negative rating action could be triggered in case of any significant deterioration in revenues and profitability or deterioration in the company's working capital cycle, weakening its financial and/or liquidity profile on a sustained basis. Specific credit metrics that may lead to rating downgrade include external debt (total debt less promoter debt)/OPBDITA higher than 3.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating methodology of Auto Component Suppliers
Parent/Group support	Not applicable
Consolidation/Standalone	The ratings are based on consolidated financial profile of VIPL and VHPL, a 51% subsidiary of VIPL.

About the company

VIPL (formerly known as Victora Tool Engineers Private Limited) was initially incorporated in 1972 by the Banga family as a proprietorship business. Currently headquartered in Faridabad, Haryana, VIPL manufactures automotive components (sheet metal components) and supplies them to its OEM clients in the PV, 2W, tractor, agricultural equipment and construction equipment segments. Additionally, VIPL caters to all categories in the PV segment, and is setting up two new manufacturing units in Sanand (Gujarat) and Pune (Maharashtra). The new manufacturing units are likely to become operational in FY2024 and FY2025. Currently, the company has seven manufacturing units in Faridabad, one in Mehsana (Gujarat) and one in Pune (Maharashtra). VIPL has a 51% subsidiary, VHPL, which operates a 175-room hotel under the Radisson Blu brand at Pari Chowk in Greater Noida. The hotel commenced operations from 2010.

Key financial indicators (audited/ provisional)

VIPL consolidated	FY2021	FY2022	FY2023*
Operating income	522.5	802.9	892.5
PAT	-0.8	13.6	25.2
OPBDIT/OI	9.2%	8.5%	10.1%
PAT/OI	-0.2%	1.7%	2.8%
Total outside liabilities/Tangible net worth (times)	2.3x	2.2x	1.5x
Total debt/OPBDIT (times)	5.5x	4.0x	3.1x
External debt**/OPBDIT (times)	4.6x	3.2x	2.8x
Interest coverage (times)	2.2x	2.9x	3.8x

*Source: Company, *provisional estimate of ICRA, **total debt less promoter debt*

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amounts in Rs. crore

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 (Rs. crore) ^	Date & rating in FY2024	Date & Rating in FY2022		Date & Rating in FY2021		
				May 30, 2023	Nov 30, 2021	Jul 22, 2021	Dec 31, 2020	May 19, 2020	Apr 7, 2020
1 **Cash Credit***	Long Term/ Short Term	75.00	-	[ICRA]BBB (Stable)/ [ICRA]A3+	-	-	-	-	-
2 **Cash Credit**	Long Term	25.00	-	[ICRA]BBB (Stable)	[ICRA]BB+ (Stable) Withdrawn	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	-	[ICRA]BBB- (Negative)
3 **Term Loans**	Long Term	153.00	135.12	[ICRA]BBB (Stable)	[ICRA]BB+ (Stable) Withdrawn	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	-	[ICRA]BBB- (Negative)
4 **LC/ BG****	Short Term	5.00	-	[ICRA]A3+	-	-	-	-	-
5 **Unallocated**	Long Term	27.00		[ICRA]BBB (Stable)	-	-	-	-	-
3 **Unallocated**	Long Term/ Short Term	-	-	-	[ICRA]BB+ (Stable)/ [ICRA]A4+ Withdrawn	[ICRA]BB+ (Stable)/ [ICRA]A4+	[ICRA]BB+ (Stable)/ [ICRA]A4+	-	[ICRA]BBB- (Negative)/ [ICRA]A3
4 **Issuer Rating**	Long Term	-	-	-	-	-	-	[ICRA]BBB- (Negative) Withdrawn	[ICRA]BBB- (Negative)#

*Source: Company, # Notice of withdrawal for 1 month, *WCDL is the sub-limit, **Letter of credit/bank guarantee, ^outstanding as of March 2023*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term/ Short-term – Cash Credit	Simple
Long-term – Cash Credit	Simple
Long-term – Term Loans	Simple
Short-term – Non-fund Based	Very simple
Long-term – Unallocated	NA

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	Cash Credit	NA	NA	NA	75.00	[ICRA]BBB (Stable)/ [ICRA]A3+
NA	Cash Credit	NA	NA	NA	25.00	[ICRA]BBB (Stable)
NA	Term Loans	April 2019	NA	March 2027	153.00	[ICRA]BBB (Stable)
NA	LC/ BG	NA	NA	NA	5.00	[ICRA]A3+
NA	Unallocated	NA	NA	NA	27.00	[ICRA]BBB (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

Company Name	Ownership	Consolidation Approach
Victora Industries Private Limited	NA*	Full Consolidation
Victora Hospitalities Private Limited	51.0%	Full Consolidation

*Source: Company, *parent company*

ANALYST CONTACTS

Shamsher Dewan
91 124 4545 328
shamsherd@icraindia.com

Kinjal Shah
+91 22 6114 3442
kinjal.shah@icraindia.com

Sheetal Sharad
+91 124 4545 374
Sheetal.sharad@icraindia.com

Uday Kumar
+91 124 4545 867
uday.kumar@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches