May 02, 2024

Versatile Engineers: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term Loan	3.50	1.50	[ICRA]B+ (Stable); reaffirmed
Long-term – Fund-based – Cash Credit	9.00	11.00	[ICRA]B+ (Stable); reaffirmed
Total	**12.50**	**12.50**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation for Versatile Engineers (VE) factors in its established operational track record of over four decades in the auto component manufacturing business along with the extensive experience of its promoters in this segment. Consequently, the firm has a strong client base comprising reputed players like Mahindra & Mahindra, CNH Industrial, among others. While the firm's top line is likely to moderate in FY2024, its margins are expected to be maintained at the FY2023 levels. Going forward, VE's capital structure is expected to improve with repayment of existing debt and some improvement in internal accrual generation in the coming years.

The rating is, however, constrained by the raw material price fluctuations and input cost pressures, which are expected to keep its credit metrics under pressure. Also, VE remains exposed to stiff competition in the auto component machining industry as well as the cyclicality in the end-user industries, particularly tractors. Moreover, given VE's constitution as a partnership firm, its capital structure is exposed to discrete risks.

The Stable outlook reflects ICRA's expectation that the firm will continue to benefit from the experience of the promoters in the auto component industry and its established relationship with reputed original equipment manufacturers (OEMs).

Key rating drivers and their description

Credit strengths

Established track record of partners in auto components industry – Constituted in 1969, VE is a part of the Kolhapur-based Versatile Group that provides machining services for automotive components to OEMs and tier-I suppliers. The firm has an established track record in the auto components industry for more than four decades. Benefiting from the same, it has been able to establish a reputed client base.

Reputed client profile – The firm has reputed domestic as well as international OEMs as clients along with Tier I suppliers for over a decade. Its client base consists of reputed names like Mahindra & Mahindra, the Carraro Group and CNH Industrial, among others. Also, the firm's revenues are diversified with more than 20% revenues coming from export clients.

Credit challenges

Average financial risk profile – The company's top line is expected to moderate in FY2024 as it is focusing on margin accretive products. Nonetheless, its internal accrual generation is likely to remain largely stable with sustenance of more than 3% margin for the year. Going forward, its capital structure and coverage metrics are expected to improve with repayment of its long-term debt. This, along with its overall financial profile is likely to remain average with stable accrual generation and moderate debt levels.

Highly fragmented and competitive industry limit pricing flexibility – The company operates in a highly fragmented and competitive component machining industry in India. This, coupled with modest scale of operations, limits the pricing flexibility of the firm.

Exposed to high client concentration risk—VE's top five customers contributed 67% to its total revenues in FY2023, exposing it to high client concentration risk. However, the risk is mitigated by the healthy client profile and strong relationships that the company has built with them over the years.

Exposed to inherent cyclicality in agriculture and automotive industries — The firm derives close to 50% of its revenues from tractor components, thus exposing it to the inherent cyclicality in the agriculture (tractor segment) and automotive industries.
Risks associated with partnership constitution— Given VE's constitution as a partnership firm, it is exposed to discrete risks, including the possibility of capital withdrawal by the partners and the risk of dissolution of the firm upon death, retirement or insolvency of the partners.

Liquidity position: Stretched

VE's liquidity position continues to be stretched with modest cash and bank balances and limited buffer in undrawn working capital limit as of March 2024. The average CC utilisation level for the last 12-month period ending in January 2024 stood at ~90% of the sanctioned limits. Moreover, the firm has debt repayments of over Rs.3 crore in FY2025 and FY2026.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if VE's revenue and profitability improves along with a sustained improvement in its liquidity profile and coverage metrics. Specific credit metric would include Debt/OPBDITA of less than 5.0 times on a sustained basis.

Negative factors – Downward pressure on the rating could arise if there is a sustained decline in earnings or a significant capital withdrawal, materially affecting VE's liquidity profile, debt coverage and leverage.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology](#) [Rating Methodology –Auto Components](#)
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

VE is a partnership firm that provides machining services for ferrous casting. The firm was constituted in 1969 in Kolhapur, Maharashtra, with two partners, Mr. Vitthal Janwadkar and his son, Late Prabhakar Janwadkar. It was later reconstituted in April 2004 with the retirement of Mr. Vitthal Janwadkar and the admission of Mr. Yatin Janwadkar (son of Late Prabhakar Janwadkar). Later, Smt. Beena Janwadkar (wife of Late Prabhakar Janwadkar) and Mrs. Amruta Janwadkar (wife of Yatin Janwadkar) have been admitted as Partners on May 15, 2021. VE provides machining services for automotive components to OEMs and Tier-I suppliers. It primarily caters to the tractor industry, although it has some exposure to other auto segments as well.

Key financial indicators (audited)

VE – Standalone	FY2022	FY2023
Operating income	134.7	128.1
PAT	0.2	0.7
OPBDIT/OI	2.7%	3.2%
PAT/OI	0.2%	0.6%
Total outside liabilities/Tangible net worth (times)	4.9	4.3
Total debt/OPBDIT (times)	7.8	6.4
Interest coverage (times)	1.5	1.6

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Financial ratios in the report are ICRA adjusted figures and may not be directly comparable with results reported by the company in some instances

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of March 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
					May 02, 2024	-	Feb 28, 2023	Nov 29, 2021
1	**Term loans**	Long term	1.50	1.50	[ICRA]B+ (Stable)	-	[ICRA]B+ (Stable)	[ICRA]BB- (Stable) ISSUER NOT COOPERATING
2	**Cash Credit**	Long term	11.00	-	[ICRA]B+ (Stable)	-	[ICRA]B+ (Stable)	[ICRA]B+ (Stable) ISSUER NOT COOPERATING

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 Loans**	FY2018-FY2023	9.5-10.0%	FY2026	1.50	[ICRA]B+ (Stable)
NA	**Cash Credit**	NA	NA	NA	11.00	[ICRA]B+ (Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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About ICRA Limited:

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