

May 08, 2024

Veljan Hydrair Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term - Fund-based limits – Cash credit	40.00	40.00	[ICRA]BBB (Stable); reaffirmed
Long term - Fund-based limits – Term loans	2.49	0.54	[ICRA]BBB (Stable); reaffirmed
Short term - Non-fund based limits – Bank guarantee	28.00	27.00	[ICRA]A3+; reaffirmed
Short term – Non-fund based limits– Letter of credit	2.00	5.00	[ICRA]A3+; reaffirmed
Long term/Short term – Unallocated limits	27.51	27.46	[ICRA]BBB (Stable)/[ICRA]A3+; reaffirmed
Total	100.00	100.00	

*Instrument details are provided in Annexure-I

Rationale

The reaffirmation of the ratings continues to factor in the extensive experience of the promoters of Veljan Hydrair Limited (VHL) and an established track record of the company in the hydraulic and pneumatic components industry. The ratings also consider the company's robust financial risk profile, characterised by healthy profit margins, a comfortable capital structure and strong debt coverage indicators.

The ratings, however, are constrained by VHL's modest scale of operations with elevated working capital intensity owing to the high receivables and inventory days. Further, the company's profit margins are exposed to the fluctuation in foreign exchange rates as exports account for a significant portion of the revenues. Increasing competition from imports and in the marine systems segment and the fluctuations in raw material prices because of the fixed-price contracts also weigh on the profit margins.

The Stable outlook on the [ICRA]BBB rating reflects ICRA's opinion that VHL's credit profile will continue to be stable, backed by the expected revenue growth, healthy profitability and comfortable coverage indicators.

Key rating drivers and their description

Credit strengths

Long track record in hydraulic and pneumatic cylinder manufacturing – VHL was incorporated in 1965 by Mr. V. C. Janardan Rao. It started with manufacturing pneumatic cylinders, air preparation units and piston pumps. The manufacturing facilities are at Patancheru, Balanagar and Pashamylaram in Hyderabad. The company sells its products in the domestic and export markets.

Healthy profit margins – The company's operating profit margins were around 26% in FY2023 and are estimated to be around 25% for FY2024. Going forward, the operating profit margins are expected to witness some moderation to ~22-23% on account of increased competition in the market. The return on capital employed stood healthy at 32% in FY2023, in line with the profitability, and is expected to remain strong, going forward.

Healthy financial risk profile – The financial risk profile of the company is healthy with a gearing of 0.2 times as on March 31, 2023 and is estimated to remain at similar levels as on March 31, 2024 owing to the low debt and a strong net worth base. The

healthy profitability and low debt resulted in strong debt coverage indicators, reflected in an interest coverage ratio of 20.67 times and TD/OPBDITA of 0.65 times in FY2023. The capital structure and debt coverage metrics are expected to remain healthy in FY2025.

Credit challenges

High working capital intensity – The working capital intensity stood high at 70.17% in FY2023, increasing from 50.43% in the previous fiscal, and is estimated to remain elevated in FY2024 owing to the high debtor and inventory days.

Moderate scale of operations – The company’s scale and order book remains modest. The operating income has grown over the past few years but has remained modest even after a strong revenue growth of 15% in FY2023 at Rs. 158.24 crore. The full-year FY2024 revenue is estimated to be around Rs. 163 crore and the company has a modest order book in hand, providing near-term revenue visibility.

Profitability exposed to fluctuation in foreign exchange rates, raw material prices and competition – The company’s profitability is exposed to foreign exchange fluctuation risks as exports form a sizeable amount of revenue. Steel accounts for a major portion of the raw materials and, thus, VHL’s profitability remains exposed to the fluctuation in steel prices. Further, the company has limited ability to pass on the increase in raw material prices due to competition from cheaper imports as well as from domestic players.

Liquidity position: Adequate

VHL’s liquidity position is adequate with cushion available in working capital limits. The company had free cash and bank balances of ~Rs. 13 crore as on March 31, 2024. The average fund-based utilisation stood at 47% in the last 12 months ended March 2024. The company has a planned capex of around ~Rs. 50 crore from FY2023 to FY2025, to be met entirely through internal accruals. The expected net cash accruals would be sufficient to cover the capex and debt repayment obligations in the near term.

Rating sensitivities

Positive factors – The ratings may be upgraded if the company exhibits a significant improvement in its scale and order book while maintaining healthy profit margins and an improvement in the receivable cycle and liquidity position on a sustained basis.

Negative factors – The ratings may be downgraded if there is a significant decline in the revenues and margins or any further elongation in the working capital cycle, adversely impacting the company’s liquidity position on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Veljan Hydrair Limited (VHL) was incorporated in 1965 by Mr. V. C. Janardan Rao. The company manufactures pneumatic and hydraulic cylinders, piston pumps and other products. The company’s manufacturing units are at Patancheru, Balanagar and Pashamylaram in Hyderabad.

Key financial indicators (audited)

Standalone	FY2022	FY2023
Operating income	137.26	158.24
PAT	27.22	31.60
OPBDIT/OI	28.25%	25.82%
PAT/OI	19.83%	19.97%
Total outside liabilities/Tangible net worth (times)	0.51	0.46
Total debt/OPBDIT (times)	0.33	0.65
Interest coverage (times)	30.65	20.67

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2025)		Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
				May 08, 2024	Mar 06, 2023	Jan 07, 2022	Feb 16, 2021	
1	Cash credit	Long term	40.00		[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Positive)
2	Term loan	Long term	0.54	0.54	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Positive)
3	Bank guarantee	Short term	27.00		[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA]A3
4	Letter of credit	Short term	5.00		[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA]A3
5	Unallocated limits	Long Term/Short Term	27.46		[ICRA]BBB (Stable)/[ICRA]A3+	[ICRA]BBB (Stable)/[ICRA]A3+	[ICRA]BBB (Stable)/[ICRA]A3+	[ICRA]BBB- (Positive)/[ICRA]A3

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash credit	Simple
Term loan	Simple
Bank guarantee	Very Simple
Letter of credit	Very Simple
Unallocated limits	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 detail

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash credit	NA	NA	NA	40.00	[ICRA]BBB(Stable)
NA	Term loan	FY2020	NA	FY2025	0.54	[ICRA]BBB(Stable)
NA	Bank guarantee	NA	NA	NA	27.00	[ICRA]A3+
NA	Letter of credit	NA	NA	NA	5.00	[ICRA]A3+
NA	Unallocated limits	NA	NA	NA	27.46	[ICRA]BBB(Stable) / [ICRA]A3+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

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

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