

July 11, 2024

Veer O Metals Private Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loans	65.51	54.53	[ICRA]BBB+(Stable); reaffirmed
Long-term Fund-based – Cash Credit	60.00	60.00	[ICRA]BBB+(Stable); reaffirmed
Short-term – Non fund based limits	21.65	21.65	[ICRA]A2; reaffirmed
Long term/Short term – Unallocated limits	3.21	26.55	[ICRA]BBB+(Stable)/[ICRA]A2; reaffirmed/assigned
Total	150.37	162.73	

*Instrument details are provided in Annexure-I

Rationale

The reaffirmation of the ratings of Veer O Metals Private Limited(VOMPL) factors in a healthy growth in revenues in FY2024 on the back of a robust demand for its products, coupled with the addition of new customers supported by the capacity enhancement plans for FY2025 provides healthy revenue visibility and favours the rating action. The ratings continue to factor in VOMPL's comfortable capital structure, healthy debt protection metrics and adequate liquidity position. ICRA takes note of its operational track record and the extensive experience of the promoters in the sheet-metal fabrication industry and the company's established relationship with reputed domestic and international customers, lending stability to the revenues.

The ratings, however, remain constrained by the highly competitive and fragmented nature of the sheet metal fabrication industry, impacting its pricing flexibility. The ratings continue to factor in the risk of high customer concentration with 31% of the revenue derived from sales to the top three customers in 11MFY2024, though the concentration moderated from 43% in FY2023. The ratings also consider the vulnerability of VOMPL's profitability to the volatility in raw material prices and the adverse currency movements as the company derives 50-60% of its revenues from exports; however, the risk naturally gets mitigated with 30-40% of its raw material requirements being imported.

The Stable outlook on the rating reflects ICRA's expectation that VOMPL will continue to maintain its credit profile, backed by sustained revenue growth, and comfortable debt coverage indicators and liquidity position.

Key rating drivers and their description

Credit strengths

Longstanding experience of promoters and strong track record of the company - The company has an established track record and the promoters have an experience of over 50 years in the sheet-metal fabrication industry, with capabilities and expertise in CNC punching, CNC bending, welding (MIG, TIG, resistance, arc), riveting, phosphate and powder coating of components.

Established relationship with reputed client base - The company caters to a diverse range of industries like IT hardware, UPS & power conditioning, power generation & power distribution, infrastructure, medical electronics, telecommunication, switchgears, electronics and automotive etc. The company has been able to forge strong relationships with established domestic and international customers.

Healthy revenue growth; comfortable capital structure and coverage indicators - The company's revenues, on a standalone level, grew by 21% to Rs. 448.16 crore in FY2024 from Rs. 368.98 crore in FY2023. The revenues are expected to increase further on a healthy pace, driven by new customer additions supported by capacity enhancement. On a standalone level, the capital structure of Veer O Metals Private Limited remained comfortable with TD/TNW at 0.76 times as on March 31, 2024. The company's financial risk profile was healthy, characterised by its comfortable debt coverage indicators with interest cover of 2.92 times and DSCR of 1.92 times in FY2024. The company has planned to incur a capex of Rs. 41 crore in FY2025, which will be predominantly funded through a term debt. Correspondingly, the debt protection metrics are expected to moderate slightly in FY2025 on YoY basis but is expected to continue to be at comfortable levels. The consolidated performance has also been healthy with stable operating margins, considerable revenue growth and comfortable debt metrics.

Credit challenges

Highly competitive industry – VOMPL operates in a highly competitive and fragmented sheet metal fabrication industry, with limited entry barriers continues to restrict its pricing flexibility. The customer concentration remains high with 31% of the revenue derived from sales to the top three customers in 11MFY2024, though the same moderated from 43% in FY2023.

Margins vulnerable to fluctuations in raw material prices and forex rates – VOMPL's key raw materials are cold-rolled steel, electro galvanised steel, stainless steel, aluminum and copper, the usage of which depends on the different types of products manufactured. The company prices its components on a cost-plus basis, wherein the company can pass on the fluctuations in commodity prices to its major clients through quarterly/half yearly price revisions. However, as the revisions are done only on quarterly/half-yearly basis, the profitability remains vulnerable to the volatility in raw material prices as is evident from the past. Margins at the standalone level are expected to improve in FY2025 with increased scale, better mix of products in the orderbook, and the company's plans to carry certain processes in-house and cut down on outsourcing. The company is also exposed to significant foreign exchange risks as it derives ~55-60% of its income from exports (including deemed exports valued in USD). However, the risk gets naturally hedged with imports forming ~30-40% of the total procurement. Further, the company plans to book forwards to hedge its forex exposure, which would mitigate the risk to an extent.

Liquidity position: Adequate

VOMPL's liquidity position remains adequate with free cash of Rs. 2.09 crore as on Mar 31, 2024 and undrawn working capital limits of Rs. 3.81 crore as on June 2024 end. Further, the anticipated cash flow from operations are expected to remain sufficient against the repayment obligation. The average utilisation of the fund-based limits was 79% of the sanctioned limits for the 10 months ended June 2024. Apart from this, the company is using funds from other sources, such as Invoicemart, that are available at lower rates and without any collaterals.

Rating sensitivities

Positive factors – ICRA could upgrade VOMPL's ratings if the company demonstrates a sustained improvement in its turnover and margins, supported by enhanced capacities, along with a sustained improvement in the working capital cycle and debt coverage metrics. Specific trigger that would lead to rating upgrade is interest coverage of more than 4 times on a sustained basis.

Negative factors – The ratings may be downgraded if any significant decline in scale or profitability weakens the key credit metrics. The ratings also may be downgraded if any stretch in the working capital cycle or higher-than-anticipated capex weakens its liquidity position. A specific trigger that may lead to a rating downgrade would be DSCR of less than 1.6 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of VOMPL with its wholly-owned subsidiary – Veer O Metal Limited, Philippines

About the company

Veer O Metals Private Limited (VOMPL) was established in 1965 as a partnership firm. It is involved in the manufacturing of sheet metal components. VOMPL produces a wide range of products, including precision sheet metal components, mechanical assemblies, enclosures, racks, sheet metal stamping parts and other machined components. The products cater to the requirements of various industries such as IT hardware, power generation and distribution, telecommunication, electronics etc. The company began operations at Bharat Electronics Limited (BEL) Industrial Area, Benagluru, and catered only to BEL during its initial years. It later expanded its customer base through supplies to leading domestic players across industries. Over the years, the company has set up multiple manufacturing units in Bengaluru, catering to both the domestic and export customers. The company has a subsidiary, Veer-O-Metals (Philippines) Inc, which was set up to cater to certain regional orders.

Key financial indicators

Consolidated	FY2022	FY2023
Operating income	332.39	417.63
PAT	8.62	21.70
OPBDIT/OI	6.88%	10.45%
PAT/OI	2.59%	5.19%
Total outside liabilities/Tangible net worth (times)	1.39	1.41
Total debt/OPBDIT (times)	3.31	2.32
Interest coverage (times)	4.16	4.39

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

Standalone	FY2023	FY2024*
Operating income	368.98	448.16
PAT	18.03	15.48
OPBDIT/OI	9.86%	9.38%
PAT/OI	4.89%	3.46%
Total outside liabilities/Tangible net worth (times)	1.30	1.46
Total debt/OPBDIT (times)	2.8	2.5
Interest coverage (times)	3.73	2.92

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore; *Provisional

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	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
		(Rs. crore)	July 11, 2024	April 10, 2023	July 07, 2022	April 07, 2021
1 Fund – Based Term loans	Long term	54.53	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2 Fund-Based Cash Credit	Long term	60.00	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
3 Non-Fund Based	Short term	21.65	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2
4 Unallocated Limits	Long term and short term	26.55	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB (Stable)/ [ICRA]A2	[ICRA]BBB (Stable)/ [ICRA]A2

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term - Fund-based – Term Loan	Simple
Long-term – Fund-based - Cash Credit	Simple
Short-term – Non Fund based Facility	Very Simple
Long term/Short term – 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 details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan-I	Feb 2022	NA	Jan 2027	7.74	[ICRA]BBB+(Stable)
NA	Term Loan-II	Jan 2022	NA	Feb 2027	3.95	[ICRA]BBB+(Stable)
NA	Term Loan-III	Nov 2023	NA	Oct 2029	14.00	[ICRA]BBB+(Stable)
NA	Term Loan-IV	Apr 2023	NA	July 2028	18.43	[ICRA]BBB+(Stable)
NA	Term Loan-V	Apr 2022	NA	Feb 2028	10.41	[ICRA]BBB+(Stable)
NA	Fund Based Limits	NA	NA	NA	60.00	[ICRA]BBB+(Stable)
NA	Non Fund Based Limits	NA	NA	NA	21.65	[ICRA]A2
NA	Unallocated Limits	NA	NA	NA	26.55	[ICRA]BBB+(Stable)/[ICRA]A2

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	VOMPL Ownership	Consolidation Approach
Veer O Metals Private Limited	100.00% (rated entity)	Full Consolidation
Veer O Metals (Philippines) Inc	100.00%	Full Consolidation

Source: VOMPL annual report FY2023

Note: ICRA has taken a consolidated view of the parent (VOMPL) and its subsidiary while assigning the ratings.

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