

December 31, 2020

Victora Tool Engineers Private Limited: Ratings revised

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based - Cash Credit	78.50	69.00	[ICRA]BB+ (Stable); revised from [ICRA]BBB- (Negative)
Fund-based - Term Loan	135.00	138.14	[ICRA]BB+ (Stable); revised from [ICRA]BBB- (Negative)
Unallocated	36.50	42.86	[ICRA]BB+(Stable)/A4+; revised from [ICRA]BBB- (Negative)/A3;
Total	250.00	250.00	

*Instrument details are provided in Annexure-1

Rationale

For arriving at the ratings, ICRA has taken a consolidated view of Victora Tool Engineers Private Limited (VTEPL), along with its wholly-owned subsidiary – Victora Hospitalities Private Limited (VHPL), and a five-star hotel named Radisson Blu – together referred to as the Group, given the strong financial and management linkages between the entities.

The rating action takes into account the decline in the Group's operating income (OI) and operating profit margins in FY2020 and 8M FY2021 due to slowdown in the automobile sector and the novel coronavirus (Covid-19) pandemic towards the end of FY2020. The hotel business has been severely impacted in FY2021 as the hospitality industry is one of the worst hit sectors by the pandemic. VTEPL's revenues dipped by ~30% in 8M FY2021 compared to 8M FY2020. The Group's financial profile deteriorated in FY2020 with interest coverage and DSCR of 2.38 times and 1.06 times, respectively. The interest coverage and DSCR are likely to deteriorate further in FY2021 owing to the expected reduction in revenues and profitability. The Group's liquidity remains weak on the back of limited cushion in fund-based limits and low cash balances. The ratings note its high Debt/OPBDITA levels and substantial debt repayments on account of the debt-funded capital expenditure incurred during the past four years. Moreover, VTEPL is exposed to high client concentration risk with its top three customers accounting for around 60% of the revenues (Maruti Suzuki India Limited alone contributed to ~50% of the total revenue). Nevertheless, the high client concentration risk is mitigated to an extent by MSIL's strong market position.

However, the rating continues to take comfort from the significant experience of the promoters in the auto ancillary industry. The ratings also take cognisance of VTEPL's established customer profile, which includes Maruti Suzuki India Limited (MSIL), JCB India Limited (JCB), Plastic Omnium Auto Energy (POAI), Samvardhana Motherson Group (SMG), International Tractors Limited (ITL) and reputed tier-I vendors such as FCC Rico (Honda Group), the Hero Group companies and Caparo Maruti, etc. Moreover, the ratings consider the moderate gearing levels despite rise in high debt in FY2020.

The Stable outlook on the [ICRA]BB+ rating reflects ICRA's opinion that the Group will continue to be benefitted by its experienced promoters and the established relationship with key customers.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters; established track record in auto ancillary industry – The current promoters have been involved in the auto ancillary business for more than five decades. The current promoters established VTEPL in 1972. VHPL commenced its hotel operations in 2010.

Established relations with reputed customers from diversified presence in automobile industry – The company manufactures sheet metal components for various domestic and overseas customers in the automobile industry. VTEPL’s clientele includes reputed names from passenger vehicle (PV), commercial vehicle (CV), tractors, along with agriculture and construction equipment segments. Its major customers are MSIL, various MSIL Group companies, JCB, POAI, ITL, Rane NSK, Hero Group, Honda Group, etc.

In-house product development capabilities provide edge over competitors – VTEPL is one of the companies in the domestic auto ancillary sector, which enjoys in-house product development capability. It also has an in-house tool manufacturing facility, which is a higher margin segment. Moreover, VTEPL manufactures tools for other players in sheet metal component industry.

Credit challenges

Decline in revenue and profitability in FY2020 and FY2021 – The Group’s sales turnover declined in FY2020 and 8M FY2021 on account of weak demand from the auto sector and the Covid-19 pandemic. VTEPL’s revenue is likely to dip by ~15% and VHPL’s revenue is likely to reduce by ~70% in FY2021 compared to FY2020. The profitability is expected to be lower in FY2021 compared to FY2020 due to the substantial absorption of overheads.

Substantial repayment of term loan – The Group has weak financial profile as depicted by low DSCR and high debt/OPBIDTA in FY2020 on account of substantial term loan repayment in the near to medium term.

High client concentration risk – VTEPL’s revenue growth is mainly dependent on orders from MSIL. The top five customers contribute to ~60% of the total revenue. However, the risk is mitigated to an extent by its long-term association with customers.

Intense competition in 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 and keeps the company’s profitability under check.

Liquidity position: Stretched

The Group’s liquidity profile is **stretched** due to substantial repayment of term loan in the near to medium term and limited cushion in the cash credit limit. However, the promoters are expected to provide funding support in a timely manner, if needed.

Rating sensitivities

Positive triggers – ICRA could upgrade the ratings if there is a sustained improvement in its sales turnover and profitability or if the interest coverage remains higher than 2.8 times on a sustained basis.

Negative triggers – A sharp decline in revenues and profitability on a sustained basis or any major debt-funded capital, weakening its financial risk profile, may trigger a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component Suppliers
Parent/Group Support	Not applicable
Consolidation /Standalone	The ratings are based on the consolidated financial of VTEPL and VHPL

About the company

VTEPL was incorporated in 2006 by the conversion of Victora Tool Engineers, a proprietorship, into a private limited company. It manufactures sheet metal components, frames and accessories for automobiles, cabin cars and doors for elevators. The company has six manufacturing facilities in Faridabad, Haryana and one in Mehsana, Gujarat. VTEPL is the flagship of the Victora Group comprising various companies involved primarily in manufacturing auto components.

VTEPL has a wholly-owned subsidiary, VHPL, which operates a 175-room hotel under the brand name Radisson Blu at Pari Chowk in Greater Noida. The hotel commenced operations in 2010.

Key financial indicators (Audited)*

	FY2019	FY2020
Operating Income (Rs. crore)	676.30	583.75
PAT (Rs. crore)	5.45	10.15
OPBDITA/ OI (%)	10.65%	9.95%
PAT (%)	0.81%	1.74%
Total Outside Liabilities/Tangible Net Worth (times)	2.38x	2.16x
Total Debt/ OPBDITA (times)	3.98x	4.56x
Interest Coverage (times)	2.96x	2.38x

Source: Company data; ICRA research, *VTEPL (audited) and VHPL (provisional FY2020) consolidated financial

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for the past three years

		Current Rating (FY2021)			Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating December 31, 2020	Date & Rating in FY2021 May 19, 2020	Date & Rating in FY2020 April 7, 2020	Date & Rating in FY2019 October 24, 2018
1	Cash Credits	69.00	-	[ICRA]BB+ (Stable)	-	[ICRA]BBB- (Negative)	[ICRA]BBB- (Stable)
2	Term Loans	138.14	138.14	[ICRA]BB+ (Stable)	-	[ICRA]BBB- (Negative)	[ICRA]BBB- (Stable)
3	Unallocated	42.86	-	[ICRA]BB+ (Stable)/A4+	-	[ICRA]BBB- (Negative)/A3	[ICRA]BBB- (Stable)/A3
4	Issuer Rating	-	-	-	[[ICRA]BBB- (Negative) Withdrawn	[ICRA]BBB- (Negative)*	[ICRA]BBB- (Stable)

*Notice of withdrawal for 1 month

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	Cash Credits	-	-	-	69.00	[ICRA]BB+ (Stable)
NA	Term Loans	July 2017	-	June 2024	138.14	[ICRA]BB+ (Stable)
NA	Unallocated	-	-	-	42.86	[ICRA]BB+ (Stable)/A4+

Source: VTEPL

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Victora Tool Engineers Private Limited	NA	NA
Victora Hospitalities Private Limited	100%	Full

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