

July 22, 2021

## Victora Tool Engineers Private Limited: Ratings reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based - Cash Credits	69.00	69.00	[ICRA]BB+ (Stable); reaffirmed
Fund-based - Term Loans	138.14	138.14	[ICRA]BB+ (Stable); reaffirmed
Unallocated	42.86	42.86	[ICRA]BB+(Stable)/A4+; reaffirmed
<b>Total</b>	<b>250.00</b>	<b>250.00</b>	

\*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 remains constrained by the impact of the pandemic on the Group’s operations and performance in FY2021. The ratings continue to be constrained by the Group’s high leverage and substantial debt repayments on account of the debt-funded capital expenditure incurred during the past four years. Moreover, the Group’s liquidity remains stretched due to limited cushion in fund-based limits and low cash balances, rendering it dependent on funding support from the promoters. VTEPL is exposed to high client concentration risk, which is mitigated, to an extent, by the principal’s strong market position, as well as exposure to intense competition from other players.

However, the rating draws comfort from the significant experience of the promoters in the auto ancillary industry and the expected revival in performance going forward across the automobile and hotel business. The rating notes VTEPL’s established customer profile, along with the continued support being extended by the promoters to manage its cash flow and funding position.

The Stable outlook on the [ICRA]BB+ rating reflects ICRA’s opinion that the Group will continue to benefit from its experienced promoters, their funding support and the established relationship with key customers, which is expected to lead to performance revival.

### Key rating drivers and their description

#### Credit strengths

**Extensive experience of promoters with track record of funding support** – 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. The promoters have also been financially supporting the Group in the past, as and when required.

**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 include reputed names from passenger vehicle (PV), commercial vehicle (CV), tractors, along with agriculture and construction equipment segments. Its major customers are Maruti Suzuki India Limited (MSIL) and its various ancillary’s 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 few 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 also manufactures tools for other players.

### Credit challenges

**Decline in revenue and profitability in FY2021; revival expected in FY2022** – The Group’s sales turnover declined in FY2021 on account of weak demand and the Covid-19 pandemic. The Group’s operating income (OI) fell by ~11% in FY2021, with an OPM of 8.71% in FY2021 compared to 9.92% in FY2020. The reduction was led by the lockdown in Q1 FY2021 and the Group reported a net loss of Rs. 0.25 crore, on a provisional basis, in FY2021. However, its revenue and profitability are likely to recover in FY2022 on the back improved performance in VTEPL and VHPL. VTEPL has reported more than Rs. 160-crore revenues in Q1 FY2022, compared to ~Rs. 27 crore in Q1 FY2021. It is, hence, poised to perform well in FY2022 over FY2021. VHPL is also likely to witness improved operating metrics as the unlock gains traction.

**Substantial leverage and repayment burden** – The Group has a weak financial profile as depicted by low DSCR and high debt/OPBIDTA of 5.92 times in FY2021 on account of low profitability and substantial term loan repayment in the near to medium term. As on March 31, 2021, the Group had a total debt of Rs. 268.21 crore, which included term debt of Rs. 165.49 primarily for the auto ancillary segment. Given the modest cash accruals, the Group has remained dependent on funding from the promoters to support the cash flow and funding position. With the ongoing debt repayment and revival in accruals, the Group’s interest coverage and DSCR are expected to improve going forward.

**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 and their strong market position.

**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, as witnessed in the past including Q1 FY2021. ICRA also notes the presence of six months’ DSRA in case of VHPL’s loan.

### Rating sensitivities

**Positive factors** – ICRA could upgrade the rating 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 factors** – 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. The timely infusion of the promoter’s fund would remain critical for liquidity support, as and when required.

### Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Consolidation and Rating Approach</a> <a href="#">Rating Methodology for Auto Component Suppliers</a>
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 concern, 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)

VTEPL Consolidated#	FY2019	FY2020	FY2021*
Operating Income (Rs. crore)	676.30	583.75	520.18
PAT (Rs. crore)	5.45	8.97	(0.25)
OPBDIT/OI (%)	10.65%	9.92%	8.71%
PAT/OI (%)	0.81%	1.54%	-
Total Outside Liabilities/Tangible Net Worth (times)	2.38	2.18	2.34
Total Debt/OPBDIT (times)	3.98	4.57	5.92
Interest Coverage (times)	2.96	2.37	2.07

Source: Company; #ICRA consolidated, \*Provisional financial statements

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year)

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore) *	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2021	Date & Rating in FY2021	Date & Rating in FY2019	
					July 22, 2021	Dec 31, 2020	May 19, 2020	Apr 7, 2020	Oct 24, 2018	
1	Cash Credits	Long Term	69.00	-	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	-	[ICRA]BBB- (Negative)	[ICRA]BBB- (Stable)	
2	Term Loans	Long Term	138.14	138.14	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	-	[ICRA]BBB- (Negative)	[ICRA]BBB- (Stable)	
3	Unallocated	Long/ Short Term	42.86	-	[ICRA]BB+ (Stable)/A4+	[ICRA]BB+ (Stable)/A4+	-	[ICRA]BBB- (Negative)/A3	[ICRA]BBB- (Stable)/A3	
4	Issuer Rating	Long Term	-	-	-	-	[[ICRA]BBB- (Negative) Withdrawn	[ICRA]BBB- (Negative)#	[ICRA]BBB- (Stable)	

Source: Company; \*as on November 30, 2020, # Notice of withdrawal for 1 month

## Complexity level of the rated instrument

Instrument Name	Complexity Indicators
Long Term – Cash Credit	Simple
Long Term – Term Loan	Simple
Long Term - Unallocated	Not Applicable

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, is available on ICRA's website: [www.icra.in](http://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: Company; #Letter of credit, submit of cash credit

**Annexure-2: List of entities considered for consolidated analysis**

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

Source: Company

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