

December 30, 2022

Versa Drives Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Cash Credit	4.60	5.10	[ICRA]BB+ (Stable); reaffirmed
Term Loans	5.10	4.60	[ICRA]BB+ (Stable); reaffirmed
Total	9.70	9.70	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation continues to derive comfort from the significant experience of Versa Drives Private Limited's (VDPL) promoters in the electrical and electronic equipment manufacturing segment for nearly three decades and its proven operational track record. The rating factors in the favourable business prospects in the company's energy-efficient fans segment, supported by the recent mandate imposed by BEE¹ under the new Star Rating Standards, which is likely to support its near-term revenue growth as the company predominantly produces energy efficient products. Additionally, ICRA expects new products developments namely, solar pump controller in the agricultural sector and EV drives for two wheeler (2-W) and three wheeler (3-W) vehicles, which are under trial, to aid VDPL in generating healthy revenue from these segments, going forward. The rating also favourably factors in the strategic association of VDPL with Murata Manufacturing Co., a globally renowned Japan-based electronics company, whereby VDPL receives technical support in new product development and assistance in client acquisition. VDPL's comfortable capital structure and liquidity position also support its credit profile.

The rating, however, remains constrained by the company's moderate scale of operations, which restricts benefits arising from the economies of scale, and makes the company vulnerable in periods of a sustained industry downturn. Besides, the revenues have remained stagnant during the past two fiscals owing to sluggish demand from its key customers in addition to shortage in the semiconductor and associated delivery delays (an industry wide phenomenon) that resulted in temporary setbacks in production. The rating is tempered by the high customer concentration with a major portion of its revenues derived from a few customers in the drives segment. In addition, the rating continues to consider the intense competition prevailing in both the drives and the ceiling fans segments with presence of renowned global and domestic players. Nonetheless, VDPL's presence in the customised drives segment facilitates in mitigating the competition to an extent.

The Stable outlook on the long-term rating reflects increasing consumers' preference for energy efficient products, which, along with VDPL's technological partnerships and new product developments, is expected to support a healthy revenue growth.

Key rating drivers and their description

Credit strengths

Favourable business prospects in ceiling fans and new segments – VDPL ventured into the ceiling fans segment in 2012 by

¹ Bureau of Energy Efficiency (Rating Agency affiliated to the Government of India)

launching energy-efficient fans, which use brushless direct current (BLDC) motors instead of conventional motors, under its own brand, Superfan. The proven operational track record in the ceiling fans segment has enabled the company in attracting customers in this segment. With BEE mandating fan manufacturers to get fan models tested and accredited with Star Rating under the new Star Rating Standards, revenue from ceiling fans is likely to witness an uptick in the coming months as the company predominantly produces energy efficient ceiling fans. VDPL has developed new products such as solar pump controller in the agricultural sector and EV drives for 2-W and 3-W vehicles, which are under trial. ICRA expects that these recent product developments and collaboration with Murata Manufacturing Co. will aid the company to record healthy revenue growth in the coming years.

Comfortable capital structure and liquidity position – VDPL’s capital structure remains comfortable, evident from a gearing² of 0.5 times as on March 31, 2022. This has been aided by its relatively lower reliance on external borrowings. Besides, its liquidity position remains adequate, as characterised by healthy cash balance and adequate buffer in working capital facilities.

Strategic investments by Murata Manufacturing Co. – VDPL received investments from Murata Manufacturing Co. in March 2019 (for a 4% equity stake). Murata provides synergies to VDPL in new product development under the drives segment, also assists in new customer acquisition and aids in expansion of its global footprint. The same is expected to help the company in diversifying its customer base under the drives segment, including the new EV drives segment.

Significant experience of promoters – VDPL’s promoters, Mr. M. Sundararajan and Mr. K. Durgasharan, have an extensive experience of nearly three decades in the electrical and electronics equipment manufacturing industry, which has played an important role in establishing VDPL as a preferred partner for providing solutions of energy-efficient products to OEMs.

Credit challenges

Moderate scale of operations and stagnation of revenue – VDPL’s moderate scale of operations restricts the benefits arising from economies of scale and makes the company vulnerable in periods of a sustained industry downturn. Further, the revenues have been stagnant in the recent past owing to sluggish demand from its key customers. Shortage in the semiconductors and associated delivery delays (an industry wide phenomenon) resulted in temporary setbacks in production. However, ICRA expects a healthy growth in the company’s revenue in the near term, supported by development of various product prototypes namely, solar pump controllers for the agricultural sector and EV drives for the 2-W and 3-W vehicles.

High customer concentration risk – VDPL’s customer concentration is high with two-third of its overall revenues derived from a single customer in the drives segment over the last few fiscals. Nonetheless, long-term association with its customer in the drives segment ensures repeat orders and mitigates the risk of customer loss to an extent.

Exposure to intense competition – The presence of renowned global players in the drives segment such as ABB Group, Schneider Electric, Danfoss Group and Siemens AG, among others, puts competitive pressure on VDPL. Nevertheless, the company’s focus on customised drives for a single purpose, unlike the global players primarily manufacturing general purpose drives, restricts the competition to an extent. Besides, it faces competition in the ceiling fans segment from renowned global and domestic players.

² Total Debt / Tangible Net Worth

Liquidity position: Adequate

Positive fund flow from operations and moderate working capital requirements of the business resulted in the retained cash flows being consistently positive over the last few years. This has kept the company's liquidity position at an adequate level. The average utilisation of cash credit facilities during September 2021 to November 2022 stood at 69% of the sanctioned limits. The cash credit facilities were enhanced to Rs. 5.10 crore in September 2022 from Rs. 4.60 crore, which has increased the liquidity headroom. Besides, it has received sanction from the lenders to bridge the funding gap of the proposed capex of ~Rs. 2 crore towards setting up new facilities for EV drives and solar pump controller segments. While the company has availed external term loan of ~Rs. 2.5 crore in the current fiscal against its fixed deposit to reduce the interest costs, sizeable cash balance of Rs. 5.00 crore maintained in the form of fixed deposit over the few fiscals, supports its liquidity position.

Rating sensitivities

Positive factors – ICRA could upgrade VDPL's rating if the company demonstrates a significant increase in its operating income and profit margins, resulting in strengthening of its net worth and credit metrics.

Negative factors – Pressure on VDPL's rating could arise if, for reasons not restricted to, 1) continued decline in the company's revenues and profitability leading to stretched debt protection metrics 2) weakening the capital structure with TOL/TNW becoming more than 2.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone financial statement of the issuer

About the company

VDPL is involved in designing and manufacturing of variable frequency drives using brushless direct current motors (BLDC) and permanent magnet synchronous motors (PMSM), as well as super-efficient ceiling fans sold under its own brand, Superfan. Its manufacturing facility is located in Coimbatore, Tamil Nadu. It was incorporated as a partnership firm called Computer Control Corporation in 1989 by Mr. M. Sundararajan and Mr. Durgasharan. Later, it was reconstituted into a private limited company as Versa Drives Private Limited (VDPL) in 2010. In March 2019, VDPL received private equity investments from Murata Manufacturing Company Limited, a Japan-based electronics manufacturing company, which is renowned in the global market. Murata holds a 4% stake in VDPL as on March 31, 2022.

Key financial indicators

VDPL	FY2021 (Audited)	FY2022 (Audited)	H1 FY2023 (Provisional)
Operating income	37.3	38.4	24.3
PAT	0.5	0.4	2.1
OPBDIT/OI	5.2%	5.5%	9.2%
PAT/OI	1.3%	1.0%	8.7%
Total outside liabilities/Tangible net worth (times)	1.1	1.1	1.2
Total debt/OPBDIT (times)	3.1	3.3	1.9
Interest coverage (times)	3.5	3.0	8.6

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current rating (FY2023)			Chronology of rating history for the past 3 years			
	Type	Amount rated (Rs. crore)	Amount outstanding as of Sep 30, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
				Dec 30, 2022	Sep 16, 2021	Aug 13, 2020	Apr 5, 2019
1 Cash Credit	Long Term	5.10	3.27	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)
2 Term Loans	Long Term	4.60	2.97	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash Credit	Simple
Term Loans	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	Cash Credit	NA	NA	NA	5.10	[ICRA]BB+ (Stable)
NA	Term Loans	March 2017	NA	October 2024	4.60	[ICRA]BB+ (Stable)

Source: Company

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

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