June 19, 2025

Val-Met Engineering Private Limited: [ICRA]BBB-(Stable)/[ICRA]A3; assigned

Summary of rating action

Instrument*	Current rated amount (Rs. crore)	Rating action
Long term – Fund based - Cash credit	40.0	[ICRA]BBB- (Stable); assigned
Long term – Fund based - CC (Sublimit)	(25.0)	[ICRA]BBB- (Stable); assigned
Short term - non-fund based - Letter of credit	57.5	[ICRA]A3; assigned
Short term - non-fund based - LC/BG/BC (Sublimit)	(97.5)	[ICRA]A3; assigned
Total	**97.5**	

**Instrument details are provided in Annexure I*

Rationale

The assigned ratings on the bank lines of Val-Met Engineering Private Limited (VMEPL) considers the extensive experience of the promoter, the company's established track record with its customers, healthy operating profitability and coverage indicators. While the customer profile is to a certain extent concentrated with around 61.2% of revenues derived from top five customers, the precision machined components supplied by it find its application across aerospace, defence, space and infrastructure sectors. VMEPL registered a healthy revenue increase of 34.2% (CAGR) over the last three years, reaching Rs. 180.6 crore in FY2025, and its operating margin stood at 18.4% in FY2025. VMEPL's financial profile remained healthy with interest coverage and debt service coverage ratio of 5.2 times and 3.9 times, respectively as on March 31, 2025.

The ratings are, however, constrained by working capital intensive nature of operations due to large inventory holding requirements and high year-end receivables, which expose the company to the risk of obsolescence in inventory and write-off of debtors. Besides, increased working capital requirements resulted in an increase in bank borrowing and its TOL/ TNW increased to 2.2 times as on March 31, 2025 compared to 2.0 times as on March 31, 2024. Further, VMEPL's profitability is susceptible to adverse movement in raw material prices, given the longer lead time in sourcing its supplies. Besides, the company sources most of its supplies through imports, exposing its profitability to volatility in foreign exchange prices. While the foreign exchange rate volatility risk is mitigated to an extent with deemed exports providing a natural hedge of ~70%, the entity does not hedge its foreign exchange receivables.

The Stable outlook on the long-term rating reflects ICRA's opinion that VMEPL's earnings and profitability are likely to remain healthy over the medium term. Further, the outlook underlines ICRA's expectation that the entity's incremental capex, if any, to further expand the capacity will be funded in a manner that it is able to durably maintain its debt protection metrics commensurate with the existing rating.

Key rating drivers and their description

Credit strengths

Experience of promoter and established track record with its customers – The promoter has an extensive experience of more than a decade in this industry, which has enabled the company to build a strong relationship with their customers and obtain repeat orders. Key customers of the entity include Hindustan Aeronautics Limited (HAL), Vikram Sarabhai Space Centre (VSSC), Aerostructures Manufacturing India Private Limited and Steel and Industrial Forgings Limited, etc.

Healthy operating profitability and coverage indicators – Given the established track record with its customers, the entity receives repeat orders from its customers. With an increase in the scale of operations and high-margin orders executed post FY2024, the operating margins of VMEPL had improved and stood at 20.9%. While the operating margin moderated by 250 bps to 18.4% in FY2025 with increase in raw material and other manufacturing expenses, its margins remained healthy. Despite some moderation witnessed in VMEPL's coverage metrics with an increase in working capital borrowing, it remained healthy with an interest coverage and debt service coverage ratio of 5.2 times and 3.9 times, respectively as of March 31, 2025.

Credit challenges

Moderate capital structure and working capital intensive nature of operations – VMEPL's working capital intensity had remained high, considering the longer lead time involved in sourcing its supplies, higher inventory holding and longer credit terms offered to its customers. Due to increased dependence on working capital borrowings, the entity's capital structure has remained relatively leveraged with a gearing of 1.5 times as on March 31, 2025. The entity's NWC/OI had peaked to 79.6% as on March 31, 2025 compared to 33.2% as on March 31, 2024 as its billings were skewed towards the last two months in that fiscal. Billings done in February and March 2025 accounted for 41.8% of the entity's overall sales in FY2025. Consequently, the receivable days stood at 249 days as on March 31, 2025, compared to 104 days as on March 31, 2024. The receivable position of the entity is expected to reduce in the subsequent months and the company's ability to manage its liquidity position remains a key monitorable.

Vulnerable to exchange rate fluctuations and demand trends in end-user segments – VMEPL sources the major portion of its supplies through imports involving a longer lead time, exposing its profitability to volatility in foreign exchange rates. While the entity does not hedge its foreign exchange exposure, deemed exports (representing ~70% of its imports) done from its SEZ unit at Sricity, Andhra Pradesh mitigate the foreign exchange rate volatility risk to an extent. Besides, VMEPL is exposed to the client concentration risk, with its top ten clients accounting for 80.3% of the total sales in FY2025. The performance of the entity depends on budgetary allocation of its end customers and the performance of the end-user industries.

Liquidity position: Adequate

VMEPL's liquidity position remains adequate, supported by healthy cash generated from operations and cushion in its working capital facilities. Average working capital utilisation over the last 12 months ending in May 2025 stood at 84.9% (against the sanctioned limit of Rs. 137.2 crore). Against these sources of cash, the entity has annual repayment obligation of ~Rs. 3.7 crore. Besides, the undrawn working capital limit of the entity stood at Rs. 20.3 crore as on March 31, 2025 and the entity has planned to incur capital expenditure of Rs. 25 crore in FY2026 funded through debt to equity in the ratio of 75:25.

Rating sensitivities

Positive factors – The ratings could be upgraded, if there is a healthy and sustained improvement in the scale of operations and profitability, while becoming more efficient in working capital management, maintaining comfortable debt protection metrics and liquidity.

Negative factors – The ratings could be downgraded if there is a sustained pressure on the company's operating performance or an increase in the working capital intensity, adversely impacting its liquidity, and debt protection metrics. Specific credit metric that could trigger ratings downgrade include TOL/TNW remaining above 2.2 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

About the company

VMEPL was incorporated in 2007 by Mr. P. H. Subramoni. The company manufactures precision machined components for space research, aerospace, defence and other industrial applications. These components are made of aluminum alloys, nickel alloys, stainless steel, titanium, cobalt, and other metal alloys. The entity has two manufacturing facilities in Chennai (Tamil Nadu) and Sricity (Andhra Pradesh).

Key financial indicators (audited)

Standalone	FY2024	FY2025*
Operating income	139.6	180.6
PAT	18.1	19.4
OPBDIT/OI	20.9%	18.4%
PAT/OI	13.0%	10.8%
Total outside liabilities/Tangible net worth (times)	2.0	2.2
Total debt/OPBDIT (times)	2.5	3.1
Interest coverage (times)	8.6	5.2

*Source: Company, ICRA Research; *Provisional numbers; All ratios as per ICRA's calculations; Amounts 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	Current ratings (FY2026)			Chronology of rating history for the past 3 years					
	Type	Amount rated (Rs. crore)	June 19, 2025	FY2025		FY2024		FY2023	
				Date	Rating	Date	Rating	Date	Rating
Cash credit	Long term	40.0	**[ICRA]BBB- (Stable)**	-	-	-	-	-	-
CC (Sublimit)	Long term	(25.0)	**[ICRA]BBB- (Stable)**	-	-	-	-	-	-
Letter of credit	Short term	57.5	**[ICRA]A3**	-	-	-	-	-	-
LC/BG/BC (Sublimit)	Short term	(97.5)	**[ICRA]A3**	-	-	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity indicator
Long term – Fund based - Cash credit	Simple

Long term – Fund based - CC (Sublimit)	Simple
Short term - non-fund based - Letter of credit	Very simple
Short term - non-fund based - LC/BG/BC (Sublimit)	Very 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	40.0	[ICRA]BBB- (Stable)
NA	**CC (Sublimit)**	NA	NA	NA	(25.0)	[ICRA]BBB- (Stable)
NA	**Letter of credit**	NA	NA	NA	57.5	[ICRA]A3
NA	**LC/BG/BC (Sublimit)**	NA	NA	NA	(97.5)	[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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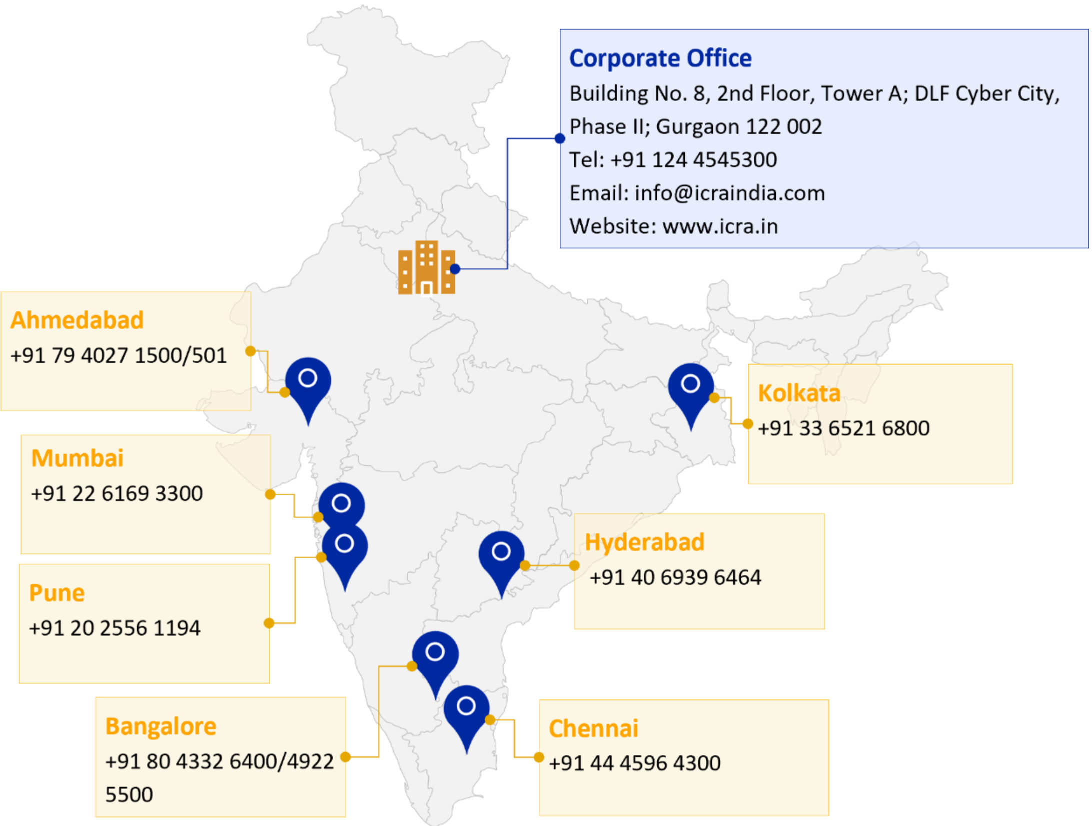

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