

January 16, 2017

Vikrant Auto Suspensions

Instrument*	Rated Amount (in crore)	Rating Action
Fund Based Limits	10.15	Reaffirmed at [ICRA]BBB+ (Stable)
Non-Fund Based Limits	(1.00)	Reaffirmed at [ICRA]A2+
Unallocated Limits	1.85	Reaffirmed at [ICRA]BBB+ (Stable)/A2+
Total	12.00	

*Instrument Details are provided in Annexure-1

Rating Action

ICRA has reaffirmed the [ICRA]BBB+ (pronounced ICRA triple B plus)¹ long-term rating outstanding on the Rs. 10.15 crore fund based facilities of Vikrant Auto Suspensions ("VAS"/"the Company").² The outlook on the long term rating is stable. ICRA has also re-affirmed the short-term rating of [ICRA]A2+ (pronounced ICRA A two plus) to the Rs.1.00 crore non-fund based facilities (sublimit of fund based limits) of VAS. Further, ICRA has also reaffirmed the [ICRA]BBB+/A2+ ratings outstanding for the Rs. 1.85 crore unallocated limits of VAS.

Rationale

The reaffirmation in ratings continues to factor in the long standing experience of the promoters and established track record of Vikrant Group in the springs manufacturing industry spanning more than five decades and their established business relations with several reputed Original Equipment Manufacturers (OEMs) including Mahindra & Mahindra Limited (M&M), Force Motors Limited and General Motors India Pvt. Ltd among others. The ratings also favourably factor in the stable financial profile of the group with healthy profitability margins, comfortable capital structure and coverage indicators. ICRA also notes the long term favourable demand outlook as well as the adequate capacities available with the group to cater to the increasing demand without significant medium term incremental capex requirements.

The assigned ratings are, however, constrained by the high client concentration with majority of sales to top customer - Mahindra & Mahindra Limited (M&M) although ICRA notes that the same is mitigated by large market share of M&M in the commercial vehicles segment and Vikrant Group's stable share of business with M&M over the years. Further, the operations are exposed to the vulnerability in currency exchange rate fluctuations and the inherent cyclical nature in the automotive industry which is the group's main end user segment. The ratings take into account the relatively moderate pricing flexibility on account of rising competition in the market. Going forward, VAS's ability to scale up in a profitable manner by adequately passing on increases in raw material costs and maintaining a prudent capital structure by managing its working capital requirements would remain critical.

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

² 100 lakh = 1 crore = 10 million

Key rating drivers

Credit Strengths

- Long standing experience of the promoters and established track record of operations of Vikrant group in the spring manufacturing industry spanning more than five decades
- Established track record of group and longstanding business relationship with several reputed Original Equipment Manufacturers including Mahindra & Mahindra Limited (M&M), Force Motors Limited and General Motors India Pvt Ltd
- Stable financial profile with healthy profitability margins, comfortable capital structure and coverage indicators
- Long term favourable demand outlook; the group has sufficient capacities to cater to the same without significant medium term incremental capex requirements

Credit Weakness

- High client concentration with majority of sales to top customer - Mahindra & Mahindra Limited (M&M); mitigated by large market share of M&M and Vikrant Group's stable share of business with the company
- Vulnerable to forex fluctuations in absence of complete hedging of receivables/payables
- Relatively moderate pricing flexibility on account of rising competition in the market
- Exposure to the inherent cyclicity of the automotive industry

Description of key rating drivers highlighted above:

The company is primarily engaged in the manufacturing of multi-leaf springs with the promoters having more than five decades of experience in the springs manufacturing business. While its long standing experience and established business relations has resulted in repeat orders and supported revenue growth in the past, the company carries high customer concentration risk with ~60% of sales being to a single customer Mahindra & Mahindra Limited (M&M). Further, the profitability of the company remains exposed to the fluctuations in prices of steel which is the major raw material although the presence of escalation clauses in majority of contracts mitigates the risk to an extent. The company recorded stagnant revenues in FY2016 due to the overall subdued demand scenario and slow order flow from major customers, however going forward the increasing focus on replacement markets as well as diversified customer base would support revenue growth.

The financial profile VAS remains stable with a favourable capital structure as reflected by reduced gearing levels of 0.4 time as on 31st March 2016 as against 0.7 time as on 31st March 2015 and comfortable coverage indicators. Meanwhile, the adequate existing capacity would eliminate any immediate requirement of debt-funded capex, which would aid VAS in maintaining its operating margins at historic levels, and keep the capital structure comfortable.

Links to applicable Criteria

<http://www.icra.in/Files/Articles/Auto%20Component-June%202016.pdf>

Analytical approach

For arriving at the ratings, ICRA has combined the business and financial risk profiles of Vikrant Auto Suspensions (VAS), Moflex Suspensions Private Limited (MSPL) and Tristar International as VAS and MSPL are owned and managed by the same promoters and are engaged in related lines of business. Further, Tristar International acts as the group's marketing company, mainly for overseas sales.

About the Company:

Established as a partnership company in 1985, Vikrant Auto Suspension (VAS) has been engaged in manufacturing and marketing of leaf springs for OEMs in the domestic market. The manufacturing plant located in Halol, Gujarat has installed capacity of manufacturing 14400 metric tonnes per annum; the unit is ISO/TS 16949, ISO 14001, and BS OHSAS 18001 certified.

The company is a part of Vikrant Group which is engaged in manufacturing of multi-leaf and parabolic automotive springs; the promoters have more than five decades of experience in the springs manufacturing business through an associate concern in Mumbai prior to establishment of VAS. Apart from VAS, the group comprises another leaf spring and parabolic suspension spring manufacturing company, Moflex Suspensions Private Limited (MSPL), incorporated in 1995 and an export oriented marketing company 'Tristar International' established in 1999.

VAS recorded a net profit of Rs. 2.0 crore on an operating income of Rs. 61.0 crore for the year ending March 31, 2016. On a consolidated basis, Vikrant group recorded a net profit of Rs.9.5 crore on an operating income of Rs. 137.1 crore for the year ending March 31, 2016.

Status of non-cooperation with previous CRA: Suspended by CRISIL in May 2016

Any other information: Not Applicable

Rating History for last three years:

Table: Rating History

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. Crores)	Month-year & Rating	Month- year & Rating in FY2016	Month- year & Rating in FY2015	Month- year & Rating in FY2014
				January 2017	September 2015	Not rated by ICRA	Not rated by ICRA
1	Cash Credit	Long Term	8.00	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)		
2	EPC/FBD	Long Term	(2.00)*	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)		
3	Term Loan	Long Term	2.15	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)		
4	Bank Guarantee	Short Term	(1.00)*	[ICRA]A1+	[ICRA]A1+		
5	Unallocated	Long Term/ Short Term	1.85	[ICRA]BBB+ (Stable)/ A1+	[ICRA]BBB+ (Stable)/ A1+		

*Sublimit of cash credit facility

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

Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Cash Credit	-	-	-	8.00	[ICRA]BBB+ (Stable)
EPC/FBD	-	-	-	(2.00)*	[ICRA]BBB+ (Stable)
Term Loan	-	-	May 2018	2.15	[ICRA]BBB+ (Stable)
Bank Guarantee	-	-	-	(1.00)*	[ICRA]A2+
Unallocated	-	-	-	2.00	[ICRA] BBB+ (Stable)/A2+

Source: Vikrant Auto Suspensions

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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