July 07, 2017

Venus Home Appliances Private Limited

Summary of Rated Instruments

Instrument*	Rated Amount (in crore)	Rating Action
Long term: Fund Based facilities	16.70	Upgraded to [ICRA]BBB (Stable)
Long term: Term Loan	4.0 (revised from 7.5)	Upgraded to [ICRA]BBB (Stable)
Short-term, Non-fund based	6.00	Upgraded to [ICRA]A3+
Long Term/Short term: Unallocated	6.30 (revised from 2.8)	Upgraded to [ICRA]BBB (Stable)/A3+
Total	**33.00**	

*Instrument Details are provided in Annexure-1

Rating Action

ICRA has upgraded the long-term rating from [ICRA]BBB- (pronounced ICRA triple B minus) to [ICRA]BBB (pronounced ICRA triple B) for the Rs. 20.70 crore (revised from Rs 24.2 crore) fund based facilities of Venus Home Appliances Private Limited (‘Venus’/the company). The outlook on the long-term rating is Stable. ICRA has also upgraded the short-term rating from [ICRA]A3 (pronounced ICRA A three) to [ICRA]A3+ (pronounced ICRA A three plus) for the Rs. 6.00 crore non-fund based bank limits of Venus. ICRA has also upgraded the long-term rating from [ICRA]BBB- to [ICRA]BBB and short-term rating from [ICRA]A3 to [ICRA]A3+ for the Rs 6.30 crore (revised from Rs 2.8 crore) unallocated limits of Venus.

Rationale

The upgrade of ratings favorably takes into account the improved financial flexibility following the strengthening of the capital structure aided by regular long-term debt repayment and healthy accretion to reserves in the last two years. ICRA expects Venus to benefit from the introduction of fan segment and new offerings in its storage water heater segment which is likely to support the company’s top-line growth. ICRA further takes into account established market position in the consumer durable business supported by strong brand and product development strengths and wide distribution network. The ratings continue to draw comfort from the extensive experience of the company’s promoters spanning over five decades in the industry.

The ratings are, however, constrained by the company’s moderate scale of operations, high product concentration and vulnerability of profit margins to movement in raw material costs. Ratings are further constrained by the pressures on revenue growth and profitability in the consumer durables industry on the back of intense competition from various established companies. ICRA also takes into account the vulnerability of the company’s profits to volatility in forex rates and raw material prices.

Key rating drivers

Credit Strengths
- Established track record of the company in the domestic electric water heater industry; technically qualified and experienced management
- Strong brand recall in major urban markets across India; Extensive distribution network with strong after-sales service support capabilities
- Improved capital structure aided by regular debt repayment and healthy accretion to reserves
- Regular new products launches in water heater segment and diversification of product portfolio by foraying into the fan segment aids the top-line growth

Credit Weakness
- Low entry barriers and increasing competition in the consumer durables segment exert pressure on realisations and margins ; brand strength of Venus mitigates the risk to an extent
- Import sourcing requirements, which currently constitute around 30% of purchases, exposes the company to currency fluctuation risks
- High product concentration with major revenue derived from single product segment; however recent product diversifications is expected to support growth

Description of key rating drivers highlighted above:
Venus registered a healthy revenue growth of 16% in FY2017 on the back of new enhanced product offerings and increased demand from the construction sector. Robust increase in sales volume in the storage water heater segment with new launches namely Magma Digital, Splash Digital, Lyra Digital & Lyra Smart has supported the volume growth significantly. Venus has also entered into the fan segment offering a variety of products from wall fans, table fans and pedestal fans, thereby diversifying its product offerings.

The company also increased the price for its flagship products during FY2017 by 2%-3%. Higher realization along with reduced raw material costs has resulted in improvement in operating margins in FY2017. The net margins improved in FY2017 on back of increased operating margin and reduction interest expense on account of long-term debt repayments.

Venus' capital structure witnessed considerable improvement from a gearing of 1.46x in March 2016 to 0.99x as on March 2017 owing to consistent repayments of its term debt amid healthy accretions. Venus's interest cover and other debt protection metrics also witnessed significant improvement.

The ratings continue to be constrained by Venus's moderate scale of operations due to high product concentration. Even though the company has a varied product range from instant water heaters to storage water heaters of various capacities, heat pumps, gas pumps and hi-speed fans, yet nearly 80% to the total revenue is contributed by the storage water heater segment. Additionally, intense competition from other major players in the industry and also from unorganized segment has exerted pressure on volume and realization of venus's products. Nevertheless, going forward, established market presence and superior brand presence along with recent product diversifications are expected to support the top-line and margins. With the company procuring inputs through imports, margins are exposed to foreign currency movements, in the absence of any hedging strategy.

Links to applicable Criteria
Corporate Credit Rating –A Note on Methodology

About the Company:
Venus Home Appliances Private Limited, incorporated in 1995, is a Tamil Nadu based manufacturer of electric water heaters. The promoters have been involved in the water heater industry for close to 50 years and the company has an established brand presence across India. Venus is a closely held entity, with the promoter's family and friends holding all the shares. The company has its manufacturing facility at Thoothukudi, Tamil Nadu with a capacity to produce more than 3 lakh units every year. The company also trades in other consumer electronic products such as solar water heaters, heat pumps and gas water heaters, and also exports its water heaters to various countries
For FY2017, Venus provisionally reported a PAT of Rs. 5.9 crore on an operating income of Rs. 129.7 crore as against a PAT of Rs. 2.5 crore on an operating income of Rs. 111.8 crore, in FY2016.

Status of non-cooperation with previous CRA: Not Applicable

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. crore)	Month-year & Rating FY2018	Month- year & Rating in FY2017	Month- year & Rating in FY2016	Month- year & Rating in FY2015
				July 2017	August 2016	June 2015	July 2014
1	Term Loans	Long Term	4.00	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)
2	Cash Credit	Long Term	16.70	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)
3	Unallocated facilities	Long Term	6.30	[ICRA]BBB (Stable)/A3+	[ICRA]BBB- (Stable)/A3	[ICRA]BBB- (Stable)/A3	[ICRA]BBB- (Stable)/A3
4	Bank Guarantee	Short Term	6.00	[ICRA]A3+	[ICRA]A3	[ICRA]A3	[ICRA]A3

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
Term loan	FY2011	-	FY2020	4.00	[ICRA]BBB (Stable)
Cash Credit	-	-	-	16.70	
Letter of Credit / Bank Guarantee	-	-	-	6.00	[ICRA]A3+
Unallocated	-	-	-	6.30	[ICRA]BBB (Stable)/A3+

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