November 14, 2017

Velmurugan Heavy Engineering Industries Private Limited

Summary of Rated Instruments

Instrument*	Rated Amount (in crore)	Rating Action
Long-term: Fund Based facilities	15.00	Upgraded to [ICRA]BB- (Stable) from [ICRA]B+(Positive)
Long-term: Term Loan	7.27 (revised from 10.62)	Upgraded to [ICRA]BB- (Stable) from [ICRA]B+(Positive)
Short-term, Bank Guarantee	4.00	Reaffirmed at [ICRA]A4
Long-term/Short-term: Unallocated	3.35(earlier nil)	Upgraded to [ICRA]BB- (Stable) from [ICRA]B+(Positive), Reaffirmed at [ICRA]A4
Total	**29.62**	

*Instrument Details are provided in Annexure-1

Rating action

ICRA has upgraded the long-term ratings outstanding on the 15.00 crore^ fund based facilities and Rs. 7.27 crore term loan facilities of Velmurugan Heavy Engineering Industries Private Limited ("VHEI" / "the company") from [ICRA]B+ (pronounced ICRA B plus) to [ICRA]BB- (pronounced ICRA double B minus) . ICRA has re-affirmed the short-term rating of [ICRA]A4 (pronounced ICRA A four) to the Rs. 4.00 crore Bank guarantee facilities of VHEI. ICRA has also upgraded/reaffirmed the long-term/short-term rating for the Rs. 3.35 crore unallocated facilities of VHEI. The outlook on the long term rating is revised to stable from positive.

Rationale

The upgrade in the ratings positively takes into consideration the improvement in operational and financial profile of the company, illustrated by healthy revenue growth and improvement in gearing and debt protection metrics. The ratings continue to draw comfort from the considerable experience of the management spanning over three decades in the heavy engineering industry. The rating also continue to favourably factor in the reputed clientele comprising large players in the engineering and wind energy sector, from whom the company has been obtaining repeat orders.

However, the ratings are constrained by VHEI's high working capital intensive nature of operations due to elevated receivables and inventory. The ratings continue to be constrained by high customer concentration risk with Gamesa Reneawble private ltd ("Gamesa") and Vestas Wind Technology India Private Limited ("Vestas") contributing to major portion of revenue in FY2017. The ratings also factors in the vulnerability of VHEI's operations to the capex cycles in the underlying end-user industry and the highly fragmented nature of the industry, which limits the pricing flexibility.

^ *100 lakh = 1 crore = 10 million*

ICRA

Key rating drivers

Credit Strengths

- **Long-standing experience of promoters in the heavy engineering industry –** VHEI was incorporated in FY1989 and has been engaged in the manufacturing of heavy engineering products like boilers, earthmoving equipment, wind turbine towers, etc. The company is currently run by the second generation of promoters with over three decades of experience in the heavy engineering industry.

- **Health growth in revenues over the last two fiscals –** VHEI registered healthy growth in revenues over the last two fiscals primarily on the back of large repeat orders from its major customers – Gamesa and Vestas.

- **Improved capital structure following consistent term debt repayment and healthy accruals during FY2017 –** VHEI's debt profile as on March 2017 consisted of working capital borrowings of Rs. 10.42 crore, term loans of Rs. 10.13 crore and unsecured debt from directors of Rs. 1.50 crore. Consistent term loans repayment along with healthy accretion to reserves during FY2017 resulted in reduced gearing levels at 2.0 times as on March, 31,2017.

Credit Weaknesses

- **High working capital intensity on the back of elevated receivables position –** VHEI's nature of operations is working capital intensive mainly driven by high receivable period offered to its customers. This along with moderate inventory position as on March 2017 has resulted in increased utilisation of working capital facilities impacting the liquidity profile of the company.

- **High customer concentration risk –** Even though VHEI supplies to diverse end-user industries, wind energy segment constitutes the largest share of revenues primarily from Gamesa and Vestas which exposes the operations to high customer concentration risk. However, established relationship with the clients limits off-take risk to an extent.

- **Intense competition keeps margins under pressure; vulnerability to capex cyclicality –** Operating in a highly fragmented industry, the company is exposed to intense competition from a number of established heavy engineering players, thereby limiting price flexibility. Further, VHEI's growth in revenue is also driven by capital expansion in its end-user industries which exposes itself to capex cyclicality.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below**.**

Links to applicable Criteria

Corporate Credit Rating –A Note on Methodology

About the Company:

Velmurugan Heavy Engineering Industries Private Limited , founded in 1989 by the late Mr R Srinivasan, undertakes fabrication, machining and assembly works to manufacture components for heavy engineering products like boilers, earthmoving equipment, wind turbine towers, machine bases, cooling systems, cement and steel plants, oil field equipments, etc. VHEI is a subcontractor for many reputed companies in the heavy engineering sector, including Bharat Heavy Electricals Limited (BHEL), Larsen & Toubro Limited (L&T), FLSmidth Private Limited, SMS India Private Limited (subsidiary of SMS Siemag AG), Gamesa Reneawble private ltd, and Vestas Wind Technology India Private Limited. VHEI has manufacturing facilities located in Trichy, Tamil Nadu, close to the BHEL factory.

Key financial indicators of VHEI

	FY2016	**FY2017**
Operating Income (Rs. crore)	116.8	172.6
PAT (Rs. crore)	8.8	9.6
OPBDIT/ OI (%)	7.5%	5.6%
RoCE (%)	21.9%	25.3%
Total Debt/ TNW (times)	3.0	2.0
Total Debt/ OPBDIT (times)	2.0	2.3
Interest coverage (times)	3.7	3.9
NWC/ OI (%)	6.4%	3.6%

OI: Operating Income; 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);
NWC: Net Working Capital

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 FY2016
				November 2017	February 2017	October 2015	September 2015
1	Term loans	Long Term	7.27	[ICRA]BB- (Stable)	[ICRA]B+ (Positive)	[ICRA]B+	[ICRA]B
2	Cash Credit	Long Term	15.00	[ICRA]BB- (Stable)	[ICRA]B+ (Positive)	[ICRA]B+	[ICRA]B
3	Non-fund based facilities	Short term	4.00	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4
4	Unallocated	Long term/ Short term	3.35	[ICRA]BB- (Stable) / [ICRA]A4	-	[ICRA]B+ / [ICRA]A4	-

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 loans	FY2017	-	FY2022	7.27	[ICRA]BB- (Stable)
Cash Credit	-	-	-	15.00	[ICRA]BB- (Stable)
Bank Guarantee	-	-	-	4.00	[ICRA]A4
Unallocated	-	-	-	3.35	[ICRA]BB- (Stable) / [ICRA]A4

Source: company

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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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