

Vishva Vishal Engineering Limited

February 08, 2018

Summary of rated instruments

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|--------------------------------------|-------------------------------------|--|
| Fund-based-Working Capital Facilities | 4.50 | 4.50 | [ICRA]BBB-(Stable); Upgraded from [ICRA]BB+(Stable) |
| Fund-based – Term Loan | 4.50 | 4.50 | [ICRA]BBB-(Stable); Upgraded from [ICRA]BB+(Stable) |
| Non-fund based Working Capital Facilities | 1.50 | 1.50 | [ICRA]A3; Upgraded from [ICRA]A4+ |
| Unallocated | 5.67 | 5.67 | [ICRA]BBB-(Stable)/[ICRA]A3; Upgraded from [ICRA]BB+(stable)/[ICRA]A4+ |
| Total | 16.17 | 16.17 | |

Rating action

ICRA has upgraded its long-term rating to [ICRA]BBB- (pronounced ICRA triple B minus) from [ICRA]BB+ (pronounced ICRA double B plus) on the Rs. 9.00-crore fund-based bank facilities and its short-term rating to [ICRA]A3 (pronounced ICRA A three) from [ICRA]A4+ (pronounced ICRA A four plus) on the Rs. 1.50-crore¹ non-fund based bank facilities of Vishva Vishal Engineering Limited (VVEL)². ICRA has also upgraded ratings to [ICRA]BBB-/ [ICRA]A3 from [ICRA]BB+/ [ICRA]A4+ on the Rs. 5.67-crore unallocated credit facilities. The outlook on the long-term rating is Stable.

Rationale

The ratings revision takes note of the sustained improvement in VVEL's operating income and profitability during FY2016 and FY2017 resulting from a healthy order flow in the refractory division. The increased focus on the refractory business, after the closure of the fabrication and wind energy divisions, has helped the company improve its operating income and profitability. Moreover, the financial profile of the company has improved in the last two years as reflected in the healthy net worth position, the reduction in Debt/OPBDITA levels and improvement in working-capital intensity. The ratings continue to derive comfort from the experience of VVEL's promoters and the company's significant track record in the manufacture of refractory materials.

However, the ratings remain constrained by the company's high debtor days, leading to a stretched working-capital cycle. The working-capital cycle has also been affected by substantial receivables from a Group company, which is yet to make a part of the payment due on account of the transfer of the fabrication division. The ratings continue to be further constrained by the exposure of the company to the cyclicity of the steel industry. It also factors in the vulnerability of the company's margins to fluctuations in raw material prices. VVEL's limited bargaining power, compared to large steel players, reduces its ability to pass on increases in input prices to customers. Moreover, the competitive pressure in the industry has intensified owing to the low cost of switching to other refractory manufacturers, surplus domestic capacity, increasing threat of imports and the entry of global players offering performance guarantees. These factors have resulted in pressure on margins of domestic players like VVEL.

Going forward, the company's ability to grow its scale of operations while sustaining operating margins and improving its working-capital intensity by reducing its receivables will be key rating sensitivities.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Outlook: Stable

ICRA believes that VVEL will continue to benefit from the extensive experience of its promoters and its established track record. The outlook may be revised to Positive if there is a substantial increase in the company's scale of operations and cash accruals. However, the outlook may be revised to a Negative if cash accrual is lower than expected, or there is a major decline in sales turnover, or the liquidity position weakens as a result of a stretched working-capital cycle.

Key rating drivers

Credit strengths

Established track record in refractory material manufacturing business – VVEL has been manufacturing refractory materials since 1985. The current promoters, who have been involved in this business for more than three decades, have strong relationships with customers and suppliers. VVEL manufactures refractory materials mainly for use in furnaces by steel companies.

Strong operational and financial profile – Over the years, the company has been witnessing an increase OI as well as stable and healthy profitability. The operating and net profit margins remain a strong 8.58% and 4.96%, respectively, in FY2017. The financial profile also remained healthy with debt service coverage ratio (DSCR) at 4.08 times, interest cover at 6.87 times and net cash accruals (NCA)/Total Debt at 82%.

Order book position provides future revenue visibility – The company has a robust order book position (Rs. 24 crore as on December 31, 2017), which provides good near-term revenue visibility. The order turnaround time is three to four months.

Reputed clientele ensures repeated orders – VVEL has reputed customers from the steel industry, which includes players like the Steel Authority of India (SAIL), Rashtriya Ispat Nigam Limited (RINL), Jindal Saw Limited (JSL), Sesa Sterlite Limited etc. These customers ensure repeat orders for the company.

Credit challenges

Margins exposed to raw material price fluctuations – VVEL's margins remain exposed to raw material price fluctuations as contracts with customers are usually based on a fixed price. The company obtains key inputs such as magnesite, bauxite, alumina and silica at current market prices, while sales orders are placed well in advance at a fixed price.

Limited bargaining capacity with customers – VVEL generates ~70% of its revenue from reputed customers and keeps the sale price at a competitive level to get repeat orders. Therefore, it becomes difficult for the company to pass on any rise in input cost to the customers.

High working-capital intensity due to high receivables – VVEL deals with customers with a secured payment trend. However, the receivable cycle is getting longer due to the challenging environment for the steel industry. Working-capital intensity has been further affected by the substantial receivables due from a group company on account of the transfer of the fabrication division, for which a part of the payment is yet to be received.

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

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

About the company

Incorporated in 1985, VVEL has been promoted by the Jain family, which has been associated with the steel industry for over 30 years. It is primarily involved in manufacturing monolithic refractories, which find application in linings for furnaces, kilns, incinerators and reactors, because of their ability to retain strength at high temperatures. Bhilai Engineering Corporation Limited (BECL) is the flagship company of the Group with a turnover of Rs. 850 crore in FY2017. BECL, set up in 1976, has three main business divisions - engineering, fertilisers, and food. Its clients include large public sector undertakings such as the National Mineral Development Corporation (NMDC) and SAIL etc.

Key financial indicators (Audited)

| | FY2016 | FY2017 |
|------------------------------|--------|--------|
| Operating Income (Rs. crore) | 63.67 | 67.31 |
| PAT (Rs. crore) | 6.11 | 5.77 |
| OPBDIT/OI (%) | 3.10 | 3.34 |
| RoCE (%) | 8.15% | 11.16% |
| Total Debt/TNW (times) | 0.19 | 0.13 |
| Total Debt/OPBDIT (times) | 1.44 | 1.10 |
| Interest Coverage (times) | 10.60 | 6.87 |
| NWC/OI (%) | 45% | 44% |

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

| Chronology of Rating History for the past 3 years | | | | | | | | |
|---|-------------------------|--------------------------|--------------------------------|-----------------------------|---------------------------------------|------------------------------------|-----------------------------------|--|
| Instrument | Current Rating (FY2018) | | | | Date & Rating | | | |
| | Type | Amount Rated (Rs. crore) | Amount Outstanding (Rs. crore) | Date & Rating February 2018 | Date & Rating in FY2017 December 2016 | Date & Rating in FY2017 April 2016 | Date & Rating in FY2016 June 2015 | |
| 1 Cash Credit | Long Term | 4.50 | - | [ICRA]BBB-(Stable) | [ICRA]BB+(Stable) | [ICRA]BB+(Stable) | [ICRA]BBB-(Negative) | |
| 2 Term Loan | Short Term | 4.50 | 2.56 | [ICRA]BBB-(Stable) | [ICRA]BB+(Stable) | [ICRA]BB+(Stable) | [ICRA]BBB-(Negative) | |
| 3 Bank Guarantee | Short Term | 0.50 | - | [ICRA]A3 | ICRA]A4+ | ICRA]A4+ | [ICRA]A3 | |
| 4 Letter of Credit | Short Term | 1.00 | - | [ICRA]A3 | ICRA]A4+ | ICRA]A4+ | [ICRA]A3 | |
| 5 Unallocated | Long /Short Term | 5.67 | - | [ICRA]BBB-(Stable)/A3 | [ICRA]BB+(Stable)/A 4+ | [ICRA]BB+(Stable)/A4+ | [ICRA]BBB-(Negative)/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: Instrument Details

| ISIN No | Instrument Name | Date of Issuance / Sanction | Coupon Rate | Maturity Date | Amount Rated (Rs. crore) | Current Rating and Outlook |
|---------|------------------|--------------------------------|-------------|------------------|--------------------------------|-------------------------------|
| NA | Cash Credit | - | - | - | 4.50 | [ICRA]BBB- (Stable) |
| NA | Term Loan | April 2016 | - | March 2021 | 4.50 | [ICRA]BBB- (Stable) |
| NA | Bank Guarantee | - | - | - | 0.50 | [ICRA]A3 |
| NA | Letter of Credit | - | - | - | 1.00 | [ICRA]A3 |
| NA | Unallocated | | | | 5.67 | [ICRA]BBB- (Stable)/A3 |

Source: Vishva Vishal Engineering Limited

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