Vacuum Plant and Instruments Manufacturing Company Limited

April 05, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based- Working Capital Facilities	2.00	2.00	[ICRA]BBB (Stable); downgraded from [ICRA]BBB+ (Stable);
Non-fund based	8.05	8.05	[ICRA]A2; downgraded from [ICRA]A2+
Total	**10.05**	**10.05**	

* Instrument details mentioned in Annexure-1

Rating action

ICRA has revised the long-term rating to [ICRA]BBB (pronounced ICRA triple B) from [ICRA]BBB+ (pronounced ICRA triple B plus) to the Rs. 2.00 crore[1] working capital facility of Vacuum Plant and Instruments Manufacturing Company Limited (VPI or the company)†. ICRA has also revised the short-term rating to [ICRA]A2 (pronounced ICRA A two) from [ICRA]A2+ (pronounced ICRA A two plus) to the Rs. 8.05 crore non-fund-based facilities of VPI. The outlook on the long-term rating is 'Stable'.

Rationale

The rating revision takes in to account the YoY decline in fresh order inflows in FY2016-FY2018 due to high competitive pressure and slowdown in the capital goods industry which led to a shrinkage in the scale of operations in FY2017 and FY2018. The company has considerably low order backlog as of March 2018 which will likely impact the revenue performance in FY2019. The ratings also take into consideration the worsening cost structure as the company executed some low margin orders which were unable to cover the fixed overheads leading to operating margins contraction as it reported operating loss of ~5% in 9MFY2018. The ratings continue to remain constrained by the pressures on working capital position as a result of overdue debtors. However, the company, during FY2018, has managed to complete few of the slow-moving projects and recover sizeable amount from overdue debtors providing some comfort to the working capital profile. Though the working capital requirements are funded by internal accruals, the same has been putting pressure on cash flow position of the company. Additionally, the ratings also take note of the de-growing operating scale of the company in the small sized vacuum equipment industry. ICRA also takes note of the considerable investments in subsidiaries without adequate returns which has led to modest return indicators.

The ratings however, continue to draw comfort from VPI's established track record and technical expertise in manufacturing products based on vacuum technology. The company's presence in the vacuum equipment's industry since 1962 has helped in long standing relationships with large public-sector entities as well as private companies. The ratings also take into consideration the debt free status as on December 2017, its satisfactory liquidity position with sufficient cash and liquid investments and steady accruals from its operations.

Going forward, ability of the company to recover from losses, maintain a steady order inflow and stable market share and manage an efficient working capital cycle will remain key rating sensitivities.

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[1] *100 lakh = 1 crore = 10 million*

† For complete rating definition, please refer to ICRA website www.icra.in or any of the ICRA Rating Publications.

Outlook: Stable

ICRA believes VPI will continue to benefit from the long track record and technical expertise of the promoters in the industry, however competitive pressures from other players in this industry is expected to moderate the market share. The outlook may be revised to 'Positive' if the company reports strong revenue growth, gains a meaningful market share, and reports considerable improvement in the operating margins which will strengthen its accruals position. The outlook may be revised to 'Negative' if the company is unable to bag adequate orders, reports de-growth in revenues and operating margins and shows deterioration in working capital profile due to stretched debtor and inventory position. Any decline in the cash and liquid investments will also be a negative rating trigger.

Key rating drivers

Credit strengths

Long standing track record of promoters in vacuum equipment industry - Established in 1965, Vacuum Plants & Instruments Manufacturing Company Limited (VPI) is promoted by Mr. Anand Kirad. The current directors of the company have experience of over two decades in vacuum equipment's industry. VPI is engaged in design, manufacturing, installation and commissioning of a wide range of vacuum equipment like drying ovens, vapour phase drying equipment, vacuum impregnation plants, oil dehydration plants and other products. The company manufactures these plants and machines primarily for transformer manufacturers as well as power generation and distribution & transmission companies.

Established relationship with the key customers - The company has a customer base comprising both public as well as private sector clients and has executed contracts in the past for reputed players from power and engineering sector. VPI is present in the export market as well and it has received orders from Middle Eastern countries in the past.

Comfortable liquidity profile and debt free status as on December 2017– VPI has a comfortable capital structure characterized by debt free status as of December 2017. Despite the working capital intensity of business, the working capital requirements are entirely funded internally. The company's liquidity profile is also comfortable with cash and liquid investment balances of Rs. 20.09 crore as on March 17 and Rs. 26.17 crore as of 9MFY2018.

Credit challenges

De-growth in revenues in FY2017 and FY2018 due to subdued order inflows- With slowdown in end user industries, predominantly power, the order inflow declined during FY2017. The same translated into 9% de-growth in operating income in FY2017. Further, considerably lower order backlog as on March 2017 and low inflow in H1FY2018 has impacted revenue performance in FY2018. The low closing order book position of Rs. 2.92 crore as of March 2018 provides limited revenue visibility in the near term.

Margins continue to deteriorate owing to continued competitive pressure –The operating margin weakened in FY2017 and 9MFY2018 due to continued competitive pressure and lack of pricing power in the bidding process. Besides the slowdown in fresh orders, many of the orders secured in FY2018 were taken at cost basis which impacted the operating margins. The company reported operating loss of 5% in 9MFY2018 as against operating profit of 7.4% in FY2017 and 8.3% in FY2016.

Stretched working capital intensity owing to extended debtor cycle and high inventory levels- Working capital intensity of VPI has been high over the years and it continued to remain under pressure represented by NWC/OI of 52.5% in FY2017 due to large finished good inventory of few undelivered projects. The receivables cycle also remains elongated due to stretched financial position of its key clients. Nevertheless, ICRA notes that there has been partial recovery of the overdue debtors outstanding from some of its international clients in 9MFY2018.

Sizeable investment in group company - The company has invested ~Rs 10.6 crore in a family owned company Dynasty Constructions (Dynasty), a recently formed partnership firm engaged in real estate development in Pune. VPI owns 15% share in Dynasty. Given the significant investment in the subsidiary, the company's return indicators have remained modest in FY2017. Any diminution in the value of such investments will have a negative bearing on the overall financial profile of the company.

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:

Established in 1965, VPI manufactures products based on vacuum technology. The company is engaged in design, manufacture and supply of insulating oil filtration plants, vacuum pressure impregnation plants, resin casting plants, vacuum drying plants, SF6 gas processing plants and other products. The company markets these products primarily to transformer manufacturers as well as power generation companies and electricity distribution companies. The company also has a technical collaboration with Hedrich, Germany for manufacturing and installation of vapour phase drying plants.

In FY2017, the company reported a net profit of Rs.1.77 crore on an operating income of Rs. 30.34 crore, as compared to a net profit of Rs. 2.44 crore on an operating income of Rs. 33.48 crore in the previous year.

Key Financial Indicators (Audited)

	FY2016	FY2017
Operating Income (Rs. crore)	33.48	30.34
PAT (Rs. crore)	2.44	1.77
OPBDIT/ OI (%)	8.33%	7.42%
RoCE (%)	8.09%	5.91%
Total Debt/ TNW (times)	0.00	0.00
Total Debt/ OPBDIT (times)	0.00	0.00
Interest coverage (times)	18.60	9.37
NWC/ OI (%)	33.48%	52.57%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2019)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating Apr 2018	Date & Rating in FY2017 Nov 2016	Date & Rating in FY2016 Mar 2016	Date & Rating in FY2015 Jan 2015
1	Fund based-Working Capital Facilities	Long Term	2.00	-	[ICRA]BBB (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
2	Non-fund based	Long term	8.05	-	[ICRA]A2 (Stable)	[ICRA]A2+ (Stable)	[ICRA]A2+ (Stable)	[ICRA]A2+ (Stable)

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
-	Fund based- Working Capital Facilities	-	-	-	2.00	[ICRA]BBB (Stable)
-	Non-fund based	-	-	-	8.05	[ICRA]A2

Source: Vacuum Plant & Instruments Manufacturing Company Limited

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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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For more information, visit www.icra.in

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