

Versa Drives Private Limited

April 05, 2019

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Fund-based: Term Loan	5.10	[ICRA]BB+(Stable); assigned
Fund-based: Cash Credit	4.60	
Total	9.70	

*Instrument details are provided in Annexure-1

Rationale

The assigned rating factors in the significant experience of Versa Drives Private Limited's (VDPL) promoters in electronic segment spanning for more than three decades. The rating also takes into account the healthy growth in revenues and profitability during FY2014-18 and comfortable debt-coverage metrics in FY2018. The rating also derive comfort from the established relationship with its major customer which led to healthy growth over the last five fiscals. The rating also favourably factors in the recent private equity (PE) investments received by VDPL from Murata Manufacturing Co., a Japan-based electronics manufacturing giant enhancing its company's capital structure and liquidity profile.

The rating, however is constrained by the company's modest scale of operations restricting its economies of scale coupled with its marginal revenue growth in FY2019, high dependence on its major customer as nearly two-third of its revenues are derived from them, and the intense competition with presence of large global players in the drives segment. However, VDPL's presence only in the customised drive segment limits its competition to an extent.

Outlook: Stable

The Stable outlook reflects ICRA's expectation that the company will benefit from its experienced promoters and from the significant experience of its strategic investor, Murata Manufacturing Co. The outlook may be revised to Positive if the company is able to achieve significant growth in operating income (OI) and profitability while maintaining its capital structure and debt-coverage indicators. The outlook may be revised to Negative if cash accruals are lower than expected, or if any unplanned capital expenditure, or stretch in the working capital cycle weakens its liquidity.

Key rating drivers

Credit strengths

Significant experience of the promoters – The company is promoted by Mr M Sundararajan and Mr K Durgasharan. Mr M Sundararajan is an M.S. in Electrical Engineering graduated from University of Missouri, USA and Mr. K Durgasharan is an M.Tech in Electrical Engineering graduated from IIT, Madras. Both have more than three decades of experience in the electricals and electronic field. They launched their own brand 'Superfan' in 2012 which are super energy-efficient fans using brushless direct current motors (BLDC) instead of conventional motors.

Healthy growth in revenues and profitability – The company's revenue had grown at a CAGR of 21.1% during FY2014-18 aided by healthy growth in both drive and ceiling fan segment. It also witnessed improvement in its profitability levels over the last five fiscals aided by healthy margins from the drive segment.

Comfortable capital structure and debt-coverage metrics – The company’s gearing is comfortable at 0.7 times as on March 31, 2018 improved from 1.5 times as on March 31, 2017 aided by improved profitability and reduced working capital debt utilisation. The debt-coverage metrics are comfortable with interest coverage ratio at 6.8 times and debt-service coverage ratio at 2.0 times in FY2018.

Strategic investments by Murata Manufacturing Co. – The company received investments from the Japanese electronic parts maker Murata Manufacturing Co. for 5% equity stake in it. The investments is likely to aid in expansion of VDPL’s product lines in the drive segment and expand its customer base to export market.

Credit challenges

Modest scale of operations – The company derives revenues from drives and ceiling fan segments, where drive segment contributes to 75% of its revenues and the rest are from ceiling fan segment. The company operates at a modest scale with revenues of Rs 37.0 crore in FY2018 and the revenue growth is marginal in FY2019 due to unfavourable market conditions during the year such as raw material price increase, rupee depreciation among others. The company derives around two-third of its revenues from its major customer in the drive segment resulting in high dependence on them. Nonetheless, established relationship with the customer mitigates this risk to an extent. Going forward, with new product development under pipeline, the company’s customer and product profile is expected to improve.

Intense competition - There are large global players in the drive segment such as ABB Group, Schneider Electric, Danfoss Group, Seimens AG manufacturing various general-purpose drives. Though the competition is intense from these global players, the company manufactures customised drives for different verticals thus limiting its competition to an extent. In the fan segment, though the competition is low as it manufactures super energy efficient fans, the lack of mandatory policy for energy rating for fans moderates the differentiating factor of Superfan with other fans in the market. However, the market for Superfans is likely to expand post the energy rating for fans becoming mandatory.

Liquidity position

The company’s liquidity position was comfortable in FY2018 with free cash flow of Rs 2.5 core. The liquidity position remained comfortable in FY2019 aided by PE investments received in March 2019. It is expected to avail the undrawn loan of Rs 1.50 crore for advertisement expenditure in FY2020 and will have has a debt repayment obligation of Rs 0.74 crore in FY2019 and Rs 0.84 crore in FY2020 and Rs 0.94 crore in FY2021. The working capital limit was utilized at 25% in the last twelve months and is likely to remain utilized sparingly in the next twelve months.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	-
Consolidation / Standalone	Based on standalone financials statements

About the company:

VDPL is engaged in designing and manufacturing of variable frequency drives using brushless direct current motors (BLDC) and permanent magnet synchronous motors (PMSM), and super-efficient ceiling fans sold under its own brand “Superfan”. Their manufacturing facility is in Coimbatore, Tamil Nadu. The company was formed as a partnership firm

called Computer Control Corporation in 1989 by Mr M Sundararajan and Mr Durgasharan and later was reconstituted into a private limited company as Versa Drives Private Limited (VDPL) in 2010. The promoters have won various awards from reputed organisations like The Confederation of Indian Industry (CII), Dupont Awards, a US-based organisation among other national and international awards for their innovation in the ceiling fan segment.

In FY2018, the company reported a net profit of Rs. 2.1 crore on an operating income of Rs. 37.0 crore, as compared to a net profit of Rs. 1.3 crore on an operating income of Rs. 29.4 crore in the previous year.

Key financial indicators (audited)

	FY2017	FY2018
OI (Rs. crore)	29.4	37.0
PAT (Rs. crore)	1.3	2.1
OPBDIT/OI (%)	10.1	12.4
RoCE (%)	31.9	31.0
Total Debt/TNW (times)	1.5	0.7
Total Debt/OPBDIT (times)	2.4	1.1
Interest coverage (times)	8.8	6.8

Status of non-cooperation with previous CRA: Not applicable

Any other information: The company is also rated by CRISIL at CRISIL BB(Stable)

Rating history for last three years:

	Current Rating (FY2020)			Chronology of Rating History for the Past 3 Years				
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding as on date (Rs. crore)	Date & Rating	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017
1	Term loan	Long Term	5.10	5.10	April 2019 [ICRA]BB+ (Stable)	-	-	-
2	Cash Credit	Long term	4.60	-	[ICRA]BB+ (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
NA	Term Loan	Mar 2015/16/17	-	Mar 31, 2023	5.10	[ICRA]BB+(Stable)
NA	Cash Credit	-	-	-	4.60	[ICRA]BB+(Stable)

Source: VDPL

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