

Veer O Metals Private Limited

April 05, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-Term: Cash Credit	21.40	42.40	[ICRA] BBB (Stable); reaffirmed
Term Loan	6.00	14.00	[ICRA]BBB (Stable); reaffirmed
Short-Term: Non-Fund based	12.10	12.10	[ICRA]A2; reaffirmed
Total	39.50	58.50	

*Instrument details are provided in Annexure-1

Rationale

The reaffirmation of the ratings continues to factor in Veer O Metals Private Limited's (VOMPL) operational track record and the extensive experience of the promoters in the sheet-metal fabrication industry. The ratings continue to factor in the established relationship with reputed domestic and international customers like Schneider Electric IT Business India Private Limited, Tyco Fire and Security GmbH, Sarel Appareillage Electrique, ABB India Limited, Alstom Transport India Limited and Bharat Electronics Limited etc. The ratings also consider the company's healthy financial profile, characterised by its comfortable capital structure and debt-coverage indicators. ICRA takes note of the successful commissioning of its new unit at Harohalli in FY2019, which is likely to support its revenue growth going forward.

The ratings, however, continue to remain constrained by the company's moderate scale of operations that limits its bargaining power vis-à-vis its customers, and the highly competitive and fragmented nature of the sheet-metal fabrication industry, impacting its pricing flexibility. The ratings continue to factor in the risk of high customer concentration with top three customers accounting for 51.6% of revenues in FY2018. The ratings also consider the vulnerability of VOMPL's profitability to volatility in raw material prices and adverse currency movements as VOMPL derives 25-30% of its revenues from exports and imports certain materials as well. ICRA further takes note of the continued financial support extended by VOMPL to its subsidiary, Veer-O-Metals (Philippines) Inc, in the form of unsecured loans, however, with the unit achieving profitability in the current fiscal, the requirement of further financial support is likely to be minimal, going forward.

Outlook: Stable

ICRA expects that VOMPL will continue to benefit from the extensive experience of its promoters and established relationship with reputed domestic and international customers. The continuing growth in the metro rail industry and efforts at establishing India as a manufacturing hub for Aerospace and Defence equipment under the Make-in India scheme augur well for the growth in demand for the company's products. The outlook may be revised to 'Positive' if the company is able to sustain its revenue growth, while improving its profitability and efficiently managing its working-capital requirements. Conversely, the outlook may be revised to 'Negative' if cyclicity in demand from key end user industries results in reduction in revenues, or higher-than-anticipated capital expenditure, or stretch in the working-capital cycle, weakens the liquidity.

Key rating drivers

Credit strengths

Long experience of the promoters: The company has an established track record and the promoters have an experience of over 50 years in the sheet-metal fabrication industry, with capabilities and expertise in CNC punching, CNC bending,

welding (MIG, TIG, Resistance, Arc), riveting, phosphate and powder coating of components. The company caters to a diverse range of industries like IT hardware, UPS & power conditioning, power generation & power distribution, infrastructure, medical electronics, telecommunication, switchgears, electronics and automotive etc.

Established relationship with reputed clientele: The company has been able to forge strong relationships with established domestic and international customers like Schneider Electric IT Business India Private Limited, Tyco Fire and Security GmbH, Sarel Appareillage Electrique, ABB India Limited, Alstom Transport India Limited and Bharat Electronics Limited etc.

Healthy financial risk profile: The company has a healthy financial risk profile as characterised by its comfortable capital structure and debt-coverage indicators. The company's revenues have recorded a revenue growth of 12.9% in FY2018 and is expected to achieve Rs. 233.0 crore in FY2019. Further, with the commissioning of its new Harohalli unit in FY2019, the company is expected to derive healthy growth over near to medium term, backed by healthy demand from its customers.

Credit challenges

Moderate scale of operations in an intensely competitive industry: The company has relatively moderate scale of operations with revenues of Rs. 186.7 crore in FY2018, limiting its operational and financial flexibility to an extent. Additionally, stiff competition in the steel-metal components industry with limited barriers to entry restricts its pricing flexibility.

High customer concentration: The company is exposed to significant customer-concentration risks with top-three customers contributing to 51.6% of its revenues in FY2018. However, long-term association with reputed customers and addition of new customers in the recent past provides stability to business and aids in diversification of revenues.

Debt-funded capital expenditure plans: VOMPL has recently completed commissioning of its Harohalli unit in FY2019. The company further plans to undertake expansion of its Harohalli unit over FY2020 and FY2021, at an estimated cost of Rs. 15.0 crore which will be funded through a term loan of Rs. 10.5 crore and remaining through internal accruals. The additional debt is likely to impact the capital structure and coverage indicators, however, the same are expected to remain comfortable. Given the significant capex plans on the anvil, the company remains exposed to project-related risks of cost and time overruns. Going forward, the ability of VOMPL to commence operations in a timely manner, coupled with adequate utilisation of enhanced capacity would remain key rating sensitivities.

Support extended to subsidiary: The company has been extending financial support to its subsidiary, Veer-O-Metals (Philippines) Inc., in the form of unsecured loans. However, with the unit achieving healthy profitability in FY2019, the requirement of further financial support is likely to be minimal going forward.

Liquidity position

VOMPL's cash flow from operations decreased to Rs. 8.2 crore in FY2018, owing to reduction in operating profitability and increase in its working capital requirements. The free cash flows turned negative to Rs. 5.0 crore with capital expenditure of Rs. 11.5-crore undertaken by the company in FY2018. Its additional working capital requirements were met through higher working capital borrowings with the average fund based utilisation being 92.3% of the sanctioned limits over the period January 2018 to January 2019. Going forward, the liquidity profile is likely to remain supported by enhancement in its working capital limits and expected growth in revenues and profitability, despite sizeable interest outgo and increased debt repayment obligations.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation / Standalone	The ratings are based on standalone financial statements of the company

About the company

Veer O Metals Private Limited (VOMPL), established in 1965, is involved in manufacturing of sheet-metal components. VOMPL produces a wide range of products including precision sheet metal components, mechanical assemblies, enclosures, racks, sheet metal stamping parts and other machined components. The products cater to the requirements of varied industry base with the major industries serviced being IT hardware, power generation and distribution, telecommunication, electronics etc. The company commenced operations at Bharat Electronics Limited (BEL) Industrial Area, Bangalore and catered only to BEL during its initial years. It later expanded its customer base through supplies to leading domestic players across industries. Over the years, the company has set-up four manufacturing units in Bangalore catering to both the domestic and the export customers. Some of the major customers include Schneider Electric Group, GE Group, ABB Limited, Tyco Global etc. The company has a subsidiary, Veer-O-Metals (Philippines) Inc, which was set up to cater to certain regional orders.

In FY2018, the company reported a net profit of Rs. 5.9 crore on an OI of Rs. 186.7 crore as compared to a net profit of Rs. 4.2 crore on an OI of Rs. 165.4 crore in the previous year. In 9M FY2019, the company reported a net profit of Rs. 7.2 crore on an OI of 176.7 crore (on provisional basis).

Key financial indicators

	FY2017 (Audited)	FY2018 (Audited)
Operating Income (Rs. crore)	165.4	186.7
PAT (Rs. crore)	4.2	5.9
OPBDIT/ OI (%)	10.0%	8.1%
RoCE (%)	11.4%	11.5
Total Debt/ TNW (times)	0.6	0.6
Total Debt/ OPBDIT (times)	2.3	2.7
Interest Coverage (times)	4.8	4.4

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 as on Dec 2018 (Rs. crore)	Date & Rating in FY2020 Apr 2019	Date & Rating in FY2019 Apr 2018	Date & Rating in FY2018 Jun 2017	Date & Rating in FY2017 Apr 2016
1 Fund Based Limits	Long term	42.40	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2 Term loan	Long term	14.00	11.53	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-	-
3 Non fund Based Limits	Short term	12.10	-	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2

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	Fund Based Limits	-	-	-	42.40	[ICRA]BBB (Stable)
NA	Term loan	Mar 2018	-	Sep 2023	14.00	[ICRA]BBB (Stable)
NA	Non-fund Based Limits	-	-	-	12.10	[ICRA]A2

Source: Veer O Metals Private Limited

ANALYST CONTACTS

K Ravichandran

+91-44-4596 4301
ravichandran@icraindia.com

Ritika Periwal

+91-80-4922 5562
ritika.mundhra@icraindia.com

R Srinivasan

+91-44-4596 4315
r.srinivasan@icraindia.com

Piyush Mathur

+91-80-4922 5563
piyush.mathur@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87
Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore + (91 80) 2559 7401/4049
Ahmedabad+ (91 79) 2658 4924/5049/2008
Hyderabad + (91 40) 2373 5061/7251
Pune + (91 20) 2556 0194/ 6606 9999

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