

April 07, 2020

Victora Tool Engineers Private Limited: Ratings reaffirmed; outlook revised to Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based - Working Capital Facilities	78.50	78.50	[ICRA]BBB-; Reaffirmed, outlook revised to Negative from Stable
Fund-based - Term Loan	135.00	135.00	[ICRA]BBB-; Reaffirmed, outlook revised to Negative from Stable
Unallocated	36.50	36.50	[ICRA]BBB-/A3; Reaffirmed, outlook revised to Negative from Stable
Issuer Rating	-	-	[ICRA]BBB-; outlook revised to Negative from Stable, put on notice of withdrawal
Total	250.00	250.00	

*Instrument details are provided in Annexure-1

Rationale

For arriving at the ratings, ICRA has taken a consolidated view of Victora Tool Engineers Private Limited (VTEPL) along with its wholly-owned subsidiary – Victora Hospitalities Private Limited (VHPL), and a 5-star hotel named Radisson Blu – together referred to as the Group, given the strong financial and management linkages between the entities.

The rating reaffirmation takes into account the healthy increase in VTEPL's operating income in FY2019 as well as the rise in cash accruals. However, the same is expected to decline in FY2020 on account of a slowdown in the automobile industry. The revision in outlook takes into account the weak demand in the domestic automobile sector and uncertainty over the impact of novel coronavirus (Covid-19) in the near to medium term.

The ratings continue to be constrained by the high Debt/OPBDITA levels and substantial debt repayments (weak DSCR) on account of the debt-funded capital expenditure incurred in the past four years. Also, VTEPL is exposed to high client-concentration risk with its top-three customers accounting for around 60% of the revenues (Maruti Suzuki India Limited alone contributed to ~45-50% of the total revenue). Although, the high client-concentration risk is mitigated to an extent by MSIL's strong market position.

However, the rating continues to take comfort from the significant experience of the promoters in the auto ancillary industry. The ratings also take cognisance of VTEPL's established customer profile, which includes Maruti Suzuki India Limited (MSIL), JCB India Limited (JCB), Plastic Omnium Auto Energy (POAI), Samvardhana Motherson Group (SMG), International Tractors Limited (ITL) and reputed tier-I vendors like FCC Rico (Honda Group), the Hero Group companies and Caparo Maruti, etc. The ratings also factor in the ability of the Group to improve its working capital intensity effectively over the past three years. Moreover, the ratings consider the moderate gearing levels despite rise in total debt in FY2019. ICRA also takes note of the successful refinancing of VHPL in September 2019, which has led to a lower interest rate.

The Negative outlook on the [ICRA]BBB- rating reflects ICRA's opinion that VTEPL's operational and financial profile might deteriorate in case there is prolonged weak demand for automobile sector in the domestic market, amid uncertainty over the impact of Covid-19.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters; established track record in auto ancillary industry - The current promoters have been involved in the auto ancillary business for more than five decades. The current promoters established VTEPL in 1972. VHPL commenced its hotel operations in 2010.

Established relations with reputed customers from diversified presence in automobile industry - The company manufactures sheet metal components for various domestic and overseas customers in the automobile industry. VTEPL's clientele includes reputed names from passenger vehicle (PV), commercial vehicle (CV), tractors, agriculture equipment, construction equipment segments. Its major customers are MSIL, various MSIL Group companies, JCB, POAI, ITL, Rane NSK, Hero Group, Honda Group, etc.

In-house product development capabilities provide edge over competitors - VTEPL is one of the companies in domestic auto ancillary, which has in-house product development capability. It also has an in-house tool manufacturing facility, which is a higher margin segment. Moreover, VTEPL manufactures tools for other players in sheet metal component industry.

Credit challenges

Substantial repayment of term loan - The Group has weak a financial profile as depicted in low DSCR and high debt/OPBIDTA in FY2019 on account of substantial term loan repayment in the near to medium term. Nonetheless, VHPL's term loan has been refinanced in FY2020 with lower interest rate.

High client-concentration risk - VTEPL's revenue growth is mainly dependent on orders from MSIL. The top five customers contribute to ~60% of the total revenue. However, the risk is mitigated to an extent by its long-term association with customers.

Intensely competitive industry limits pricing power - The auto ancillary industry is intensely competitive due to the presence of various organised and unorganised players. This limits the pricing power and keeps profitability under check.

Liquidity position: Stretched

Group's liquidity profile is **stretched** due to substantial repayment of term loan in the near to medium term and limited cushion in the cash credit limit. However, promoters are expected to provide funding support in a timely manner, as and when circumstances so warrant.

Rating sensitivities

Positive triggers – The outlook can be revised to Stable in case there is an improvement in the domestic demand for the automobile industry. Rating upgrade in the near term is unlikely since the outlook on the long-term rating is Negative.

Negative triggers – ICRA could downgrade the ratings in case there is a sharp decline in revenues and profitability on a sustained basis. Any major debt-funded capital or longer uncertainty over the impact of Covid-19, which weakens its financial risk profile, will be negative triggers. In terms of specific credit metrics, DSCR less than 1.1 times on a sustained basis will also be a negative trigger.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component Suppliers
Parent/Group Support	Not applicable
Consolidation /Standalone	The ratings are based on the consolidated financial of VTEPL and VHPL

About the company

VTEPL was incorporated in 2006 by the conversion of Victora Tool Engineers, a proprietorship, into a private limited company. It manufactures sheet metal components, frames and accessories for automobiles and cabin cars and doors for elevators. The company has six manufacturing facilities in Faridabad, Haryana and one in Mehsana, Gujarat. VTEPL is the flagship of the Victora Group comprising various companies engaged primarily in manufacturing auto components.

VTEPL has a wholly-owned subsidiary, VHPL, which operates a 175-room hotel under the brand name Radisson Blu at Pari Chowk in Greater Noida. The hotel commenced operations in 2010 and had been incurring losses since inception till FY2017.

Key financial indicators (Audited)*

	FY2018	FY2019
Operating Income (Rs. crore)	575.82	676.30
PAT (Rs. crore)	53.23	5.45
OPBDITA/ OI (%)	10.00%	10.65%
RoCE (%)	10.94%	10.54%
Total Outside Liabilities/Tangible Net Worth (times)	2.19x	2.38x
Total Debt/ OPBDITA (times)	4.61x	3.98x
Interest Coverage (times)	3.66x	2.96x
DSCR (times)	1.08x	1.34x

Source: Company data; ICRA research, *VTEPL and VHPL consolidated financial

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for the past three years

		Current Rating (FY2020)			Chronology of Rating History for the past 3 years			
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating April 7, 2020	Date & Rating in			
					FY2019	October 24, 2018	-	-
1	Cash Credits	78.50	-	[ICRA]BBB-(Negative)	[ICRA]BBB-(Stable)	-	-	-
2	Term Loans	135.00	135.00	[ICRA]BBB-(Negative)	[ICRA]BBB-(Stable)	-	-	-
3	Unallocated	36.50	-	[ICRA]BBB-(Negative)/A3	[ICRA]BBB-(Stable)/A3	-	-	-
4	Issuer Rating	-	-	[ICRA]BBB-(Negative)*	[ICRA]BBB-(Stable)	-	-	-

*Notice of withdrawal for 1 month

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 Credits	-	-	-	78.50	[ICRA]BBB- (Negative)
NA	Term Loans	July 2017	-	June 2024	135.00	[ICRA]BBB- (Negative)
NA	Unallocated	-	-	-	36.50	[ICRA]BBB- (Negative)/A3
NA	Issuer Rating	-	-	-	-	[ICRA]BBB- (Negative)*

Source: VTEPL, *Notice of withdrawal for 1 month

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Victoria Tool Engineers Private Limited	NA	NA
Victoria Hospitalities Private Limited	100%	Full

ANALYST CONTACTS

K. Ravichandran
+91 44 45964301
ravichandran@icraindia.com

Manish Ballabh
+91 124 4545 812
manish.ballabh@icraindia.com

Gaurav Singla
+91 124 4545 366
gaurav.singla@icraindia.com

Uday Kumar
+91 124 4545 867
uday.kumar@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

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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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

© Copyright, 2020 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents