November 20, 2014

Facilities	Amount (Rs. Crore)	Rating
Cash Credit	1.00	SMERA B+/Stable (Assigned)
Term Loan	4.82	SMERA B+/Stable (Assigned)

SMERA has assigned a long-term rating of **'SMERA B+' (read as SMERA single B plus)** to the Rs.5.82 crore bank facilities of Veritek Engineering Private Limited (VEPL). The outlook is **'Stable'**. The rating is constrained by the company's small scale of operations in a highly competitive and fragmented segment of electrical components industry. The rating is also constrained by the susceptibility of the company's profit margins to volatility in raw material prices and fluctuations in foreign exchange rates. The rating factors in risks related to the debt-funded capex undertaken by the company. However, the rating is supported by the company's experienced management.

VEPL, established in 1998, is a Navi Mumbai-based company engaged in manufacturing and export of various electrical components such as current transformers, electronic protective relays, electrical transducers and indicating instruments. VEPL's small operating scale is reflected in revenues of Rs.7.52 crore in FY2012–13 (refers to financial year, April 01 to March 31). Further the company has a low net worth base of Rs. 3.70 crore (including interest free unsecured loans of Rs. 2.45 crore treated as quasi equity) as on March 31, 2013. The company faces intense competition from several domestic and international players in the electrical components industry. VEPL derives ~50 per cent of its total revenues through exports. The company's profit margins are thus exposed to forex fluctuation risk in the absence of hedging arrangements. Moreover, VEPL's profit margins are also susceptible to volatility in raw material prices. The company's operating profit margin declined from 7.88 per cent in FY2011–12 to 6.66 per cent in FY2012–13.

VEPL has undertaken capex of Rs.9.19 crore (towards construction of a factory building and purchase of machineries) for backward integration and diversification into providing electronic manufacturing services. The aforementioned capex is funded through a term loan of Rs.4.91 crore and promoters' funds of Rs.4.28 crore. The company plans to commission the project by December 2014. SMERA believes VEPL's profitability may be adversely affected by increase in interest burden.

VEPL benefits from its qualified and experienced management. Mr. Indiran Ganesh Kumar and Mr. Rakesh Verma, directors of VEPL, have around two decades of experience in the company's line of business.

Outlook: Stable

SMERA believes the outlook on VEPL's rated facilities will remain stable over the medium term. The company will continue to benefit from its experienced management. The outlook may be revised to 'Positive' in case the company registers healthy growth in revenues and profit margins post commissioning of the ongoing project. The outlook maybe revised to 'Negative' in case of deterioration in the company's capital structure, or in case of significant decline in the company's revenues and profit margins.

About the company

VEPL, incorporated in 1998, is a Mumbai-based promoted by Mr. Indiran Ganesh Kumar and Mr. Rakesh Verma. VEPL is engaged in manufacturing and export of various electrical components such as digital panel meters, current transformers, earth leakage relays, protection systems, electrical transducers and temperature controllers.

For FY2012–13, VEPL reported net profit of Rs.0.25 crore on operating income of Rs.7.52 crore, as compared with net profit of Rs.0.26 crore on operating income of Rs.7.10 crore in FY2011–12. VEPL's net worth stood at Rs.3.70 crore as on March 31, 2013, as compared with Rs.2.86 crore a year earlier. As per provisional financial statements of FY2013–14, VEPL reported net profit of Rs.0.46 crore on operating income of Rs.8.51 crore.

Contact List

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