

Vasantha Advanced Systems: Downgraded

Facilities	Amount (Rs. Crore)	Rating/Outlook
Term Loan I	0.91	SMERA B+/Stable (Downgraded from BB-/Stable)
Term Loan II	0.33	SMERA B+/Stable (Downgraded from BB-/Stable)
Term Loan III	4.00	SMERA B+/Stable (Downgraded from BB-/Stable)
Cash Credit	3.50	SMERA B+/Stable (Downgraded from BB-/Stable)
Letter of Credit	0.30	SMERA A4 (Reaffirmed)
Bank Guarantee	0.40	SMERA A4 (Reaffirmed)

SMERA has downgraded the long term rating on the above mentioned facilities of Vasantha Advanced Systems (VAS) to **'SMERA B+' (read as SMERA B plus)** from 'SMERA BB-' (read as SMERA double B minus) and reaffirmed the short term rating of **'SMERA A4' (read as SMERA A four)**. The outlook is **'Stable'**. The downgrade is due to decline in operating margins and the on-going capex which is likely to have an adverse impact on the financial risk profile of the firm.

The ratings continue to draw comfort from the experienced management, growth in revenues and efficient working capital management. However, the ratings continue to be constrained by the moderate scale of operations, below average financial risk profile and susceptibility of profit margins to volatility in raw material prices.

Update

VAS is engaged in the manufacture of micro control based electronic controllers and Printed Circuit Boards (PCBs). The financial risk profile of the firm has deteriorated marked by net worth of Rs.1.21 crore and gearing (debt-equity) of 2.32 times as on March 31, 2016 compared to net worth of Rs.4.68 crore and gearing of 0.93 times in the previous year. The deterioration is on account of capital withdrawal for the on-going capex and is expected to deteriorate further.

The firm is in the process of setting up a new plant and shifting the existing capacity from a rented premise. The total project cost is Rs.12.00 crore to be funded through term loan of Rs.7.20 crore and unsecured loan of Rs.4.80 crore from promoters. The bank has sanctioned Rs.3.93 crore and the repayment for the same is expected to start from April 2017.

The interest coverage ratio deteriorated to 2.07 times in FY2015-16 compared to 3.30 percent in FY2014-15. The operating margins declined to 2.81 percent in FY2015-16 from 5.02 percent in FY2014-15 mainly due to increase in raw material cost.

The revenue of the firm improved to Rs.39.14 crore in FY2015-16 from Rs.21.74 crore in FY2014-15 with increase in orders during the year. The firm registered revenue of Rs.25.00 crore from April – October 2016. The efficient working capital management is marked by Gross current assets days of 60 days. The average cash credit utilisation stands at 33 percent for the last six months ended October 2016.

Rating Sensitivity Factors

- Sustained improvement in scale of operations and profitability
- Movement in capital structure and coverage indicators
- Efficient working capital management

Outlook-Stable

SMERA believes that VAS will continue to maintain a stable outlook and benefit over the medium term from its promoters extensive experience in the industry. The outlook may be revised to 'Positive' if the firm reports significant increase in revenue and operating profitability, leading to considerable cash accruals resulting in improvement in the capital structure. Conversely, the outlook may be revised to 'Negative' in case of decline in revenue and profitability leading to lower than expected cash accruals, deterioration in the financial risk profile or capital structure. This could be due to debt-funded capex or working capital borrowings.

Criteria applied to arrive at the rating:

- Manufacturing Entities

About the Firm

Established in 1995 by Mr. S. Chidambaranathan, VAS is a Coimbatore-based proprietorship firm engaged in the manufacture of micro control based electronic controllers. The firm also assembles high quality PCBs and coils.

For FY2015–16, VAS reported net profit of Rs.0.41 crore on operating income of Rs.39.14 crore, as compared with net profit of Rs.0.30 crore on operating income of Rs.21.74 crore for FY2014–15.

Rating History

Date	Facilities	Amount (Rs. Crore)	Ratings		Rating Outlook
			Long Term	Short Term	
23 July, 2015	Term Loan I	0.91	SMERA BB- (Assigned)	-	Stable
	Term Loan II	0.33	SMERA BB- (Assigned)	-	Stable
	Proposed Term Loan	4.00	SMERA BB- (Assigned)	-	Stable
	Cash Credit	3.00	SMERA BB- (Assigned)	-	Stable
	Proposed Cash Credit Enhancement	0.50	SMERA BB- (Assigned)	-	Stable
	Letter of Credit	0.30	-	SMERA A4 (Assigned)	-
	Bank Guarantee	0.40	-	SMERA A4 (Assigned)	-

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ABOUT SMERA

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