

VR Coatings Private Limited: Reaffirmed

Facilities	Amount (Rs. Crore)	Ratings/Outlook
Cash Credit	5.20	SMERA BB/Stable (Reaffirmed)
Proposed Term Loan	0.80	SMERA BB/Stable (Reaffirmed)
Bank Guarantee	1.00	SMERA A4+ (Reaffirmed)

SMERA has reaffirmed the long term rating of '**SMERA BB**' (read as SMERA double B) and short term rating of '**SMERA A4+**' (read as SMERA A four plus) on the abovementioned bank facilities of VR Coatings Private Limited (VRCPL). The outlook is '**Stable**'.

The reaffirmation is in view of the company's established track record of operations and moderate financial risk profile. However, the ratings are constrained by the stagnant operating income, working capital intensive business and foreign exchange fluctuation risk.

Update

The growth rate in operating income of VRCPL has remained stagnant on account of subdued demand for airless spray painting and dispensing equipment. The operating income stood at Rs.20.92 crore in FY2015-16 (Provisional) as against Rs.22.85 crore in FY2014-15. Further, the EBITDA margin of the company marginally declined from 9.92 per cent in FY2014-15 to 9.70 per cent in FY2015-16 (Provisional). The decline in operating margin is mainly on account of increase in employee cost as a percentage of sales. As per FY2015-16 (Provisional), the employee cost contributed around 44 per cent of total revenues in the operating cost structure.

The financial risk profile is marked by moderate net worth of Rs.6.89 crore as on 31 March 2016 (Provisional). The gearing stands at 1.12 times as on March 31, 2016 (Provisional) as against 1.34 times on 31 March 2015. The interest coverage ratio stood at 2.06 times for FY2015-16 (Provisional). The operations of VRCPL are working capital intensive as reflected in the gross current asset days of 258 for FY2015-16 (Provisional).

VRCPL continues to benefit from its experienced management. Mr. Vincent Felix D'Souza, Director, has over two decades of experience in the auto-ancillary industry. The company is also exposed to foreign exchange fluctuation risk as it generates around 20 per cent of its revenues from exports to Europe, South America, South Africa, Middle East countries among others.

Rating Sensitivity Factors

- Scaling up operations while maintaining profit margins
- Improvement in debt coverage indicators

Outlook-Stable

SMERA believes that VRCPL will continue to maintain a stable outlook and benefit over the medium term from its established presence in the auto ancillary industry as also its experienced management. The outlook may be revised to 'Positive' if the scale of operations increases substantially while also improving its operating profitability and financial risk indicators. Conversely, the outlook may be revised to 'Negative' if the profit margins decline due to fluctuations in raw material prices and deterioration in the financial risk profile.

Criteria applied to arrive at the rating:

- Manufacturing entities

About the Company

The Pune-based VRCPL was incorporated in 1985 by Mr. D'Souza and family. The company is engaged in the manufacture and installation of pneumatically driven airless spray painting and dispensing equipment that find application in automobiles, aeronautics and several other industries. The day-to-day operations are managed by Mr. D'Souza. The company's clientele include Tata Motors, Mahindra & Mahindra, Volkswagen to name a few.

As per FY2015-16 (Provisional), VRCPL reported net profit after tax (PAT) of Rs.0.41 crore on operating income of Rs.20.92 crore as against PAT of Rs.0.39 crore on operating income of Rs.22.85 crore in the previous year.

Rating History:

Date	Facilities	Amount (Rs. Crore)	Ratings		Rating Outlook
			Long Term	Short Term	
01 September, 2015	Cash Credit	5.20	SMERA BB (Assigned)	-	Stable
	Proposed Term Loan	0.80	SMERA BB (Assigned)	-	Stable
	Bank Guarantee	1.00	-	SMERA A4+ (Assigned)	-

Contacts:

Analytical	Business Development
Mr. Mohit Jain Vice President – Ratings Operations, Tel: +91-22-6714 1105 Cell: 9619911017 Email: mohit.jain@smera.in	Mr. Suman M Vice President – Business Development, Corporate Ratings Tel: +91-22-6714 1151 Cell: +91-9892306888 Email: suman.m@smera.in

ABOUT SMERA

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