



SMERA RATINGS LIMITED

Venkateswara Steels & Springs India Private Limited (VSSPL)

Rating Rationale

June 22, 2015

Facilities	Amount (Rs. Crore)	Ratings
Cash Credit	2.75	SMERA BBB-/Stable (Assigned)
SME Credit plus	0.25	SMERA BBB-/Stable (Assigned)
Term Loan 1	2.25	SMERA BBB-/Stable (Assigned)
Term Loan 2	1.00	SMERA BBB-/Stable (Assigned)
Term Loan 3	1.50	SMERA BBB-/Stable (Assigned)
Term Loan 4	2.00	SMERA BBB-/Stable (Assigned)
Bank Guarantee	0.15	SMERA A3 (Assigned)

SMERA has assigned long term rating of '**SMERA BBB-**' (read as **SMERA triple B minus**) and short term rating of '**SMERA A3**' (read as **SMERA A three**) to the Rs.9.90 crore bank facilities of Venkateswara Steels & Springs India Private Limited (VSSPL). The outlook is '**Stable**'. The ratings derive comfort from the company's established track record of operations, vast experience of promoters and healthy financial risk profile. The ratings are however constrained by the small scale of operations, stagnancy in revenues, declining margins and exposure of the company to customer and sector concentration risks.

VSSPL, established in 1993, is a Coimbatore-based company engaged in the manufacture of precision springs, press components and sub-assemblies used majorly in the automobile and textile industries. The company is headed by Mr. M. S. Vijayaraghavan, Managing Director, Mr. M. S. Anathakrishnan and Mr. L. Dhanapal, Directors, with around 25 years of industry experience.

VSSPL's healthy financial risk profile is reflected in the gearing of 0.59 times as on March 31, 2014 and interest coverage ratio of 3.16 times in FY2013-14. The company's total debt of Rs.4.75 crore (as on March 31, 2014) comprises short-term working capital facilities to the tune of Rs.3.11 crore, unsecured loans from promoters of Rs.0.50 crore and long term borrowings. VSSPL's utilisation of bank facilities is around 78 per cent for six months ended April 2015. The company plans to undertake a capex of around Rs.5 crore to set up a factory at SIPCOT (State Industries Promotion Corporation of Tamil Nadu Limited). The project is to be funded through two term loans of Rs.3.50 crore cumulatively which have been partly disbursed. Subsequently, the gearing is expected to be within 1.00 times. The factory is expected to commence operations from December 2015.

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VSSPL's small scale of operations are reflected in its revenue of Rs.27.31 crore in FY2013-14 that translates into a nominal two per cent growth over the previous year on account of slowdown in the automobile sector. The company registered revenue of around Rs.32.00 crore in FY2014-15 (provisional). VSSPL's operating profit margin declined to 10.21 per cent in FY2013-14 from 12.57 per cent in FY2011-12.

The company remains exposed to customer and sector concentration risks due to high dependence on orders (around 70 per cent revenue) from its main client, Brakes India Limited.

Outlook: Stable

SMERA believes that VSSPL will continue to benefit from an experienced management and established track record. The outlook may be revised to 'Positive' in case the company's scale of operations improves substantially while maintaining profit margins. Conversely, the outlook may be revised to negative in case the company's business risk profile weakens resulting in lesser than expected revenues or profitability and deterioration in working capital cycle.

About the Company

Venkateswara Steels & Springs (India) Private Limited (VSSPL), the erstwhile Venkateswara Steels, is a Coimbatore-based company headed by Mr. M. S. Vijayaraghavan, Mr. M. S. Anathakrishnan and Mr. L. Dhanapal to manufacture precision springs, press components and sub-assemblies. The company majorly caters to the automobile and textile sectors.

For FY2013-14, VSSPL reported net profit of Rs.0.69 crore on operating income of Rs.27.31 crore as compared with net profit of Rs.0.85 crore on operating income of Rs.26.76 crore for FY2012-13. The net-worth of the company stood at Rs.8.11 crore as on March 31, 2014 as compared with Rs.7.42 crore a year earlier.

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