

Press Release

VP Engineers (VP)

10 February, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs.5.50 crore
Long Term Rating	SMERA B / Outlook: Stable
Short Term Rating	SMERA A4

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA B**' (**read as SMERA B**) and short term rating of '**SMERA A4**' (**read as SMERA A four**) on the Rs. 5.50 crore bank facilities of VP Engineers (VPE). The outlook is '**Stable**'.

VP Engineers, a Tamil Nadu based partnership firm was established in 2013 by Mr. N. Srinivasan and Mr. V. Balasubramanian. The firm is engaged in the manufacture of industrial products used in condensers, heat exchangers, cooling towers among others. Currently, the day-to-day operations are managed by the promoter partners.

Key rating drivers

Strengths

Experienced management

VP Engineers was established in 2013 by Mr. N. Srinivasan, Mr. V. Balasubramanian, and others who possess more than three decades of experience as directors in the said line of business through group companies such as IGP Engineers Private. Limited, Arudra Engineers Private Limited, Cori Engineers Private Limited, Lonestar Industries, Aruchem, Insaplex, Insap Engineers Private Limited.

Reputed customer-base and wide geographical reach

Of the total sales of Rs.11.56 crore in FY2016-17, around 80 percent revenue was from domestic sales and the rest generated through exports. The firm has operations in Haryana, Andhra Pradesh, Gujarat and Tamil Nadu. Also, the firm exports to USA, Oman, Norway, Kuwait and Saudi Arabia.

The clientele includes reputed names such as Step-Ko Products LLP, Indian Oil Corporation Limited, Al-Turki Enterprises LLC to name a few.

Moderate financial risk profile

The firm has moderate financial risk profile marked by modest networth, comfortable gearing and moderate debt protection metrics. The networth stood at Rs.7.56 crore as on 31 March, 2017 as against Rs.7.57 crore in the previous year. The gearing stood comfortable at 0.72 times as on 31 March, 2017 as against 0.44 times in the previous year. The total debt of Rs.5.41 crore as on 31 March, 2017 consists of long term debt of Rs.2.49 crore and unsecured loans from promoters of Rs.1.05 crore, short term borrowings of Rs.1.03 crore and Current Portion of Long Term Debt (CPLTD) of Rs.0.84 crore. The Interest Coverage Ratio (ICR) stood at 2.49 times for FY2017 as against 4.01 times in the previous year. The NCA/TD ratio stood at 0.15 times as on 31 March, 2017 as against 0.22 in the previous year.

Weaknesses

Moderate scale of operations

The scale of operations is moderate marked by operating income of Rs.11.56 crore for FY2016-17 as against Rs.7.96 crore in the previous year. The growth in revenue is on account of the order book position and faster execution of orders.

Working capital intensive operations

The operations are working capital intensive marked by Gross Current Asset days (GCA) of 193 during FY2017 as against 167 days for FY2016. This is on account of increase in inventory days to 66 as on 31 March, 2017 as against 56 crore in the previous year. The increase in inventory days from 56 to 66 is mainly on the account of year end purchases. However, the same was converted to sales in the first quarter of FY2017-18. Further, the debtor days increased to 126 days as on 31 March, 2017 as against 94 days in the previous year.

Highly fragmented and competitive industry

The firm is exposed to intense competition in the heavy engineering industry marked by several mid and large sized players.

Analytical approach:

SMERA has considered the standalone business and financial risk profiles of the firm.

Outlook – Stable

SMERA believes that VP Engineers will maintain a Stable outlook over the medium term on account of the extensive experience of the management and reputed client base. The outlook may be revised to 'Positive' in case the firm registers healthy revenue growth. Conversely, the outlook may be revised to 'Negative' in case of decline in deterioration in the financial risk profile due to debt-funded capital expenditure or elongated working capital cycle.

About the Rated Entity – Key Financials

Particulars	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	11.56	7.96	11.75
EBITDA	Rs. Cr.	1.47	1.23	2.93
PAT	Rs. Cr.	0.16	0.37	1.49
EBITDA Margin	(%)	12.75	15.44	24.90
PAT Margin	(%)	1.40	4.70	12.67
ROCE	(%)	7.06	9.36	35.04
Total Debt/Tangible Net Worth	Times	0.72	0.44	0.04
PBDIT/Interest	Times	2.49	4.01	23.42
Gross Current Assets	Days	193	167	153

Any other information:

Not Applicable

Applicable Criteria

- Manufacture <https://www.smera.in/criteria-manufacturing.htm>
- Application of Financial Ratios and Adjustments: <https://www.smera.in/criteria-fin-ratios.htm>
- Default Recognition: <https://www.smera.in/criteria-default.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Status of non-cooperation with previous CRA (if applicable):

None

Rating History (Upto last three years)

Not Applicable

Annexure - Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Term Loan	Not Applicable	Not Applicable	Not Applicable	1.93	SMERA B/ Stable
Term Loan (WTCL)	Not Applicable	Not Applicable	Not Applicable	0.47	SMERA B/ Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.00	SMERA B/ Stable
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.50	SMERA A4
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	0.25	SMERA A4
Proposed Facility	Not Applicable	Not Applicable	Not Applicable	1.35	SMERA B/ Stable

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ABOUT SMERA

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