

Press Release

VAJRA RUBBER PRODUCTS PRIVATE LIMITED

26 February, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 10.10 Cr.
Long Term Rating	SMERA BBB- / Outlook: Stable
Short Term Rating	SMERA A3

* Refer Annexure for details

Rating Rationale

SMERA has assigned rating of '**SMERA BBB**' (read as SMERA triple B minus) and '**SMERA A3**' (read as SMERA A three) on the Rs.10.10 crore facilities of Vajra Rubber Products Private Limited (VRPPL). The outlook is 'Stable'.

The Kerala-based, VRPPL, was incorporated in 1989 by Mr. P. S. Sachindranath, Managing Director. The company is engaged in the manufacturing of engineered rubber products (seal, ring, packing, gasket among others) that find application in oil fields, automobiles, mining and aerospace. The company has installed capacity of ~1300 ton units per month. It derives around 50 percent of its revenue from group company, Core International LLC (USA), 10 percent from Europe, UAE and the remaining 40 percent from the domestic market. The company is part of the US-based Core International Group engaged in the design, manufacture and distribution of engineered rubber products.

Key Rating Drivers

Strengths

Established track record of operations and experienced management

VRPPL was established in 1989 by Mr. Sachindranath P. S., Managing Director. He has an experience of more than three decades in the development of specialised engineered rubber products for ISRO and Defence. Mr. Sabreenath G., Executive Director has around two decades of experience in the same field. The company has been able to maintain long standing relations with its reputed clients, including Bharat Electronics Limited, Advanced Systems Laboratory and Vikram Sarabhai Space Centre. VRPPL, on account of its long standing relations has been able to get repeat business. The company reported operating income of Rs. 24.40 crore for FY2017 as against Rs. 13.59 crore for FY2016. Further, the company reported operating income of Rs. 14.15 crore from April, 2017 to December, 2017. VRPPL commands healthy margins for its products as the EBITDA margin stood at 15.57 percent for FY2017 and 14.43 percent in the previous year.

Going forward, SMERA expects the company to maintain its business risk profile on account of its established presence and extensive experience of its management.

Healthy financial risk profile

The company has healthy financial risk profile marked by networth of Rs.12.98 crore as on 31 March, 2017 compared to Rs 11.16 crore in the previous year. The gearing is comfortable at 0.22 times as on 31 March, 2017 as against 0.16 times in the previous year. The Total Debt Outstanding of Rs. 2.85 crore as on 31 March, 2017 consists of long term secured loan of Rs.0.22 crore and short term borrowings of Rs 2.57 crore. The company has healthy Interest Coverage Ratio (ICR) of 10.63 times in FY2017 as against 6.14 times in FY2016 mainly due to improvement in the operating profit. The net cash accruals to total debt (NCA/TD) stood at 1.01 times in FY2017 and 0.86 in FY2016. The total outside liabilities to tangible networth stood at 0.68 times as on 31 March 2017 compared to 0.58 times in the previous year. The return on capital employed has improved from 6.49 percent in FY2016 to 19.95 percent in FY2017. Further, the company is expected to undertake capacity expansion of Rs. 2.36 crore which will be funded through term loan of Rs. 2.00 crore and remaining through internal accruals which is not expected to have any major impact on the financial risk profile of the company. Going forward, SMERA expects the company to maintain its healthy financial risk profile on account of growth in net cash accruals and moderate working capital requirements.

Weaknesses

Working capital intensive operations

The operations are working capital intensive marked by Gross Current Asset (GCA) days of 204 in FY2017 as compared to 258 days in the previous year. This is mainly due to high debtor days of around 164 days in FY2017 as against 118 days in FY2016. The company mainly caters to public sector units leading to delays in receivables. The company's inventory days reduced to 44 days in FY2017 as against 111 days in FY2016. However, the liquidity position is comfortable with average cash credit limit utilisation of ~85 percent during the last six months ended as on 31 December, 2017.

Profitability is susceptible to volatility in raw material prices and forex rates

The main raw material used by the company is synthetic rubber. The prices of the same are directly dependent on the crude oil prices that are highly volatile in nature. Hence, any change in the price of the synthetic rubber can have adverse impact on the profitability of the company. Further, the company also exports around 61 percent of its sales to countries including US, Europe, UAE and others. Hence, the profitability of the company is exposed to volatility in foreign exchange rate in the absence of adequate hedging mechanism.

Exposure to intense competition

VRPPL operates in a highly competitive industry with limited entry barriers and large number of players in the domestic and overseas markets.

Analytical Approach

For arriving at the rating, SMERA has considered the standalone business and financial risk profile of VRPPL.

Outlook: Stable

SMERA believes that the outlook of VRPPL will remain stable on account of its experienced management and healthy financial risk profile. The outlook may be revised to 'Positive' in case the company registers significant growth in revenue and profitability while maintaining comfortable liquidity profile. Conversely, the outlook maybe revised to 'Negative' in case of deterioration in the financial risk profile due to major debt funded capex plan or higher than working capital borrowings.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	24.40	13.59	13.98
EBITDA	Rs. Cr.	3.80	1.96	2.54
PAT	Rs. Cr.	1.81	0.38	1.06
EBITDA Margin (%)	(%)	15.57	14.43	18.14
PAT Margin (%)	(%)	7.44	2.78	7.58
ROCE (%)	(%)	19.95	6.49	11.09
Total Debt/Tangible Net Worth	Times	0.22	0.16	0.34
PBDIT/Interest	Times	10.63	6.14	5.08
Total Debt/PBDIT	Times	0.72	0.86	1.34
Gross Current Assets (Days)	Days	204	258	249

Status of non-cooperation with previous CRA (if applicable) -None

Any other information – None

Applicable Criteria

- Default Recognition -<https://www.smera.in/criteria-default.htm>
- Manufacturing Entities -<https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments -<https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument <https://www.smera.in/criteria-complexity-levels.htm>

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
Cash Credit	NA	NA	NA	0.75	SMERA BBB-/ Stable
Term Loan	NA	NA	NA	2.10	SMERA BBB-/ Stable
Export Packing Credit	NA	NA	NA	3.00	SMERA A3
Foreign Bill Discounting	NA	NA	NA	2.00	SMERA A3
Bank Guarantee	NA	NA	NA	2.00	SMERA A3
Letter of Credit	NA	NA	NA	0.25	SMERA A3

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ABOUT SMERA

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