

Press Release

Vasanthi Foundry

June 14, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 9.00 Cr.
Long Term Rating	ACUITE BB+ / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BB+**' (**read as ACUITE double B plus**) on the Rs.9.00 crore bank facilities of Vasanthi Foundry (Vasanthi). The outlook is '**Stable**'.

Vasanthi Foundry is a Coimbatore based partnership firm established in the year 1996 by Mr. Prakash and Mr. Manimegalai. The firm is engaged in the manufacturing of cast iron rough castings (Motor and compressor spares). The firm has three manufacturing facilities in Coimbatore with an installed capacity of 2,650 metric tonnes (MT) per month.

Key Rating Drivers

Strengths

- Experienced management and long track record of operations**

Vasanthi Foundry started in the year 1996 is into manufacture of in hand moulding with production capacity of 7 MT per month. Gradually, the firm has modernized its machines, and now operates three units in Coimbatore with manufacturing capacity of 2650 MT per month. Continued investment, regular off-take from its vintage clients and addition of new clients, longstanding presence supported in improvement of its revenues; revenues improved at a compound annual growth rate (CAGR) of about 23 percent, from Rs.28.73 crores in FY2016 (refers to financial year, April 1st to March 31st) to Rs.54.06 crore (provisional) in FY2018. The firm's investment of Rs.8.8 crores in FY2018 in increasing the production capacity yielded results - revenues in FY2018 increased by about 45 per cent over FY2017. Acuité believes that the revenue profile is expected to improve to about Rs.80.0 crores to Rs.90.0 crores over the medium term, on the back of current capacity utilisation of about 60 per cent, regular flow of orders, and new client addition.

- Comfortable working capital cycle**

Working capital cycle of the firm is comfortable which is evident from gross current assets (GCA) days of about 98 in FY2018 (provisional). Regular flow of orders, raw material availability in and around Coimbatore helped the firm in minimising its inventory days at about 25 days; the firm offers credit of about two months to its creditors. On back to back basis, the firm receives credit of about 60 days from its creditors which minimises the investment in working capital; as a result, the firm has been efficiently managing its working capital of Rs.6.5 crores at about 80 per cent utilisation over the past four months through April 30, 2018. Acuité believes that the firm's working capital operations are expected to be at similar levels over the medium term supported by healthy raw material sourcing, and supplier support on the back of healthy client profile the firm is maintaining.

- Moderate financial risk profile**

Financial risk profile of the firm is moderate as reflected in moderate gearing (debt-to-equity) and total outside liabilities to total networth (TOLNW), and comfortable debt protection metrics. Gearing is moderate at 1.77 times (provisional) as of March 31, 2018, though minor deterioration from 1.57 times as of March 31, 2016 due to continued debt-funded investment. The firm's networth has improved to about Rs.9.2 crores as of March 31, 2018 from a modest level of Rs.5.98 crores in FY2017 partly by equity infusion of about Rs.1.95 crores towards the capital expenditure (capex) undertaken. Its TOLNW has marginally improved to about 2.6 times as of March 31, 2018. The firm has invested

about Rs.8.8 crores on expansion and renovation, partly funded through term loan of Rs.4.0 crores. The firm's debt protection metrics are comfortable: interest coverage ratio (ICR) at 3.21 times, debt service coverage ratio (DSCR) of 1.96 times. The firm's expected cash accruals in the range of Rs.3.0 crores to Rs.5.0 crores over the medium term are adequate enough to service its debt obligations of about Rs.0.9 crores to Rs.1.5 crores, besides supporting the increasing working capital requirement comfortably to maintain the financial risk profile at moderate levels.

Weaknesses

- **Susceptibility of margins to volatility in raw material prices**

Raw material forms a major component of the total cost for the firm at about 74 per cent of operating income. The prices of pig iron, CI scrap, Lam coke among others are volatile in nature affecting the profit margins. Profitability margins at operating level moves around 8.0–9.0 per cent; any adverse movement in the raw material prices will affect the profitability of the firm.

- **Client concentration risk**

Revenue profile of the firm is skewed towards three of its clients - about 60 per cent of its revenues are from Bindhu Engg Industries, CRI Pumps Private Limited and Aquasub Engg. Any economic downturn in revenues of any of its clients, or any eventuality will impact the business and financial risk profile of the firm adversely. Ability of the firm to diversify its customer base geographically would be the key rating sensitivity.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the Vasanthi Foundry to arrive at this rating.

Outlook: Stable

Acuité believes that Vasanthi Foundry will maintain a stable outlook over the medium term owing to its experienced management, established relationship with customers and suppliers. The outlook may be revised to 'Positive' in case of higher-than-expected growth in its revenues and profitability while improving its capital structure. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital management, or larger-than-expected capital expenditure deteriorating its liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	54.04	37.17	31.62
EBITDA	Rs. Cr.	4.70	3.39	2.57
PAT	Rs. Cr.	1.25	0.65	0.33
EBITDA Margin	(%)	8.70	9.13	8.12
PAT Margin	(%)	2.32	1.75	1.04
ROCE	(%)	14.57	13.14	10.49
Total Debt/Tangible Net Worth	Times	1.77	1.90	1.57
PBDIT/Interest	Times	3.21	3.14	4.27
Total Debt/PBDIT	Times	3.45	3.35	2.89
Gross Current Assets (Days)	Days	95	102	101

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

None

Any other information

None

Applicable Criteria

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

Note on complexity levels of the rated instrument

<https://www.acuite.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
Term Loan	Not Applicable	Not Applicable	Not Applicable	7.72	ACUITE BB+ / Stable
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	1.28	ACUITE BB+ / Stable

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About Acuité Ratings & Research:

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