

Press Release

Vasanthi Foundry

January 05, 2021

Rating Withdrawn



Total Bank Facilities Rated*	Rs.9.00 Cr.
Long Term Rating	ACUITE BB (Withdrawn)

* Refer Annexure for details

Rating Rationale

Acuité has reviewed and withdrawn the long-term rating of '**ACUITE BB**' (**read as ACUITE double B**) on the Rs.9.00 Cr bank facilities of Vasanthi Foundry (VF).

The rating withdrawal is in accordance with Acuité's policy on withdrawal of rating and on account of request received from the firm and No Objection Certificate (NOC) received from the banker.

About the Firm

Coimbatore-based, VF was established as a partnership firm in 1996 by Mr. V Sivaprakash and Mrs. 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) of castings per month.

Analytical Approach

Acuité has taken the standalone view of the business and financial risk profile of VF to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management and long track record of operations**

The partners, Mr. V Sivaprakash and Mrs. Manimegalai have over than two decades of experience in the said line of business. The extensive experience, coupled with a long track record of operations, has enabled the firm to forge healthy relationships with customers and suppliers.

- **Comfortable working capital operations**

VF's working capital operations are comfortable as evident from Gross Current Asset (GCA) of 80 days in FY2020 (Provisional) as against 89 days in FY2019, due to prudent inventory management and efficient collection of trade receivables. The inventory days were recorded at 26 days in FY2020 (Provisional) against 23 days in FY2019. Further, the firm maintains an inventory policy of 30 days to cater to spot orders. The debtors days were recorded at 52 days in FY2020 (Provisional) as against 58 days in FY2019.

Weaknesses

- **Average financial risk profile**

VF's financial risk profile is average marked by deteriorating gearing (debt to equity ratio) & total outside liabilities to total net worth (TOL/TNW), modest net worth and debt protection metrics. The gearing has stood at 2.32 times as on 31 March, 2020 (Provisional) as against 1.80 times as on 31 March, 2019. TOL/TNW stood at 2.85 times as on 31 March, 2020 (Provisional) as against 2.62 times as on 31 March, 2019. Tangible net worth of the firm stood modest at Rs.13.39 Cr as on 31 March, 2020 (Provisional) as against Rs.12.62 Cr as on 31 March, 2019.

Debt protection metrics of interest coverage ratio and net cash accruals to total debt stood moderate at 4.60 times and 0.22 times, respectively in FY2020 (Provisional).

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

Raw material forms a major component of the total cost for the firm at about 60 percent of operating income. The prices of pig iron, CI scrap, Lam coke among others are volatile in nature affecting the margins. The operating margins moves around 9.00–10.00 percent; any adverse movement in the raw material prices will affect the profitability of the firm.

• **Customer concentration risk**

Revenue profile of the firm is skewed towards three of its clients - about 60-70 percent 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.

Rating Sensitivities

Not Applicable

Material Covenants

None

Liquidity: Adequate

The firm has adequate liquidity marked by healthy net cash accruals against moderate repayment obligations. The firm has generated cash accruals of Rs.6.77 Cr in FY2020 (Provisional), against moderate repayment obligations of Rs.0.85 Cr. The firm maintains unencumbered cash and bank balances of Rs.0.07 Cr as on 31 March, 2020 (Provisional). The current ratio of the firm stood at 2.41 times in the same period. Liquid investments stood at Rs.0.24 Cr as on 31 March, 2020 (Provisional).

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	95.56	88.17
PAT	Rs. Cr.	1.77	2.79
PAT Margin (%)	(%)	1.86	3.17
Total Debt/Tangible Net Worth	Times	2.32	1.80
PBDIT/Interest	Times	4.60	4.16

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
30-Oct-2020	Term Loan	Long Term	7.72	ACUITE BB (Downgraded; Indicative)
	Proposed Bank Facility	Long Term	1.28	ACUITE BB (Downgraded; Indicative)
08-Aug-2019	Term Loan	Long Term	7.72	ACUITE BB+ (Indicative)
	Proposed Bank Facility	Long Term	1.28	ACUITE BB+ (Indicative)
14-Jun-2018	Term Loan	Long Term	7.72	ACUITE BB+/ Stable (Assigned)

	Proposed Bank Facility	Long Term	1.28	ACUITE BB+/ Stable (Assigned)
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***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Term Loan	Not Applicable	Not Applicable	Not Applicable	7.72	ACUITE BB (Withdrawn)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	1.28	ACUITE BB (Withdrawn)

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About Acuité Ratings & Research:

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