

Press Release

Vulcan Industrial Engineering Company Limited

D-U-N-S® Number: 91-850-1748

April 09, 2019

Rating Upgraded



Total Bank Facilities Rated*	Rs. 56.00 Cr.
Long Term Rating	ACUITE BB+ / Outlook: Stable (Upgraded from ACUITE BB)
Short Term Rating	ACUITE A4+

* Refer Annexure for details

Rating Rationale

Acuite has upgraded the long-term rating to '**ACUITE BB+**' (read as **ACUITE double B plus**) from '**ACUITE BB**' (read as **ACUITE double B**) and has reaffirmed the short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) to the Rs. 56.00 crore bank facilities of VULCAN INDUSTRIAL ENGINEERING COMPANY LIMITED (VIECL). The outlook is '**Stable**'.

The upgrade is driven by the expectation of improvement in the company's working capital cycle marked by lower inventory days and lower credit period to the customers in line with the change in policy. This results in improvement of working capital cycle and its overall operating performance.

VIECL, incorporated in 1971, is engaged in the manufacturing of shovel parts; dragline excavator parts, drill parts and drilling accessories, industrial gears. It is an API and ISO certified company and has its manufacturing plant located at Anand (Gujarat). VIECL also has an In-house R & D unit approved from Govt. of India, Ministry of science and technology. The manufacturing facility is spread over 26 acres (105,200 sq. meters) with 200,000 sq. ft. (18,580 sq. Meters) of covered area for current manufacturing capabilities.

Analytical Approach

Acuite has considered the standalone financial and business risk profile of VIECL to arrive at the rating.

Key Rating Drivers

Strengths

- Experienced management and long track record of operations**

VIECL's promoters, Mr. J Gandhi along with his sons, Mr. Sanjay Gandhi and Mr. Rajiv Gandhi have an extensive experience of more than four decades in the replacement part industry. The company was incorporated in 1971 and since then it has expanded itself from supplying drilling accessories to manufacturing and exporting of engineering parts such as shovel parts, dragline parts, industrial gears, gear boxes and also providing customised engineering solutions. Its R&D unit is led by Mr. Ankit Gandhi, grandson to Mr. J Gandhi.

The extensive experience is reflected through the healthy revenue growth and long standing relationship with the customers like L&H Industries, BEML, Rio Tinto, Sandvik to name a few.

- Moderate financial risk profile**

VIECL has moderate financial risk profile marked by moderate tangible net worth, low gearing and moderate debt protection metrics. The tangible net worth as on 31 March, 2018 stood at Rs. 63.15 crore as against Rs. 60.43 crore as on 31 March, 2017. As on February 2019 (Provisional) the tangible net worth stood at Rs. 70.61 crore.

The company has followed a conservative financial policy as reflected by its peak gearing (Debt to Equity) of 0.81 times over the last three years through 2017-18. The gearing remained low at 0.53 times as on 31 March, 2018 as against 0.61 times as on 31 March, 2017. The gearing stands at 0.29 times

as on February 2019 (Provisional) backed by the improvement in the tangible net worth coupled with reduction in working capital utilization.

With the less utilization of its working capital limits, the Interest Coverage Ratio (ICR) is also improved to 5.56 times as on February 28, 2019 (Provisional) as against 2.74 times as on March 31, 2018. The Service Coverage Ratio (DSCR) stood at 1.20 times as on March 31, 2018.

Acuite expects the financial risk profile will continue to remain moderate in the absence of any debt funded capital expenditure plans in the near term.

Weaknesses

• Working capital intensive operations

VIECL's operations are working capital intensive marked by high Gross Current Asset (GCA) of 235 days as on February 2019 against 303 days as on March 31, 2018. The GCA days are mainly dominated by debtor days in the range of 125-250 days which has been improved in FY 2019 backed by better realization of debtors. The working capital limits were utilised up to 64.50 percent for the past six months through February 2019.

Acuite believes that moderation of working capital cycle will remain crucial to maintain a stable credit profile.

Liquidity Position

VIECL has comfortable liquidity position marked by its ability to generate net cash accruals of Rs. 7.95 crore in FY 2018 against its repayment obligations of Rs. 0.61 crore. The operations remain working capital intensive with high GCA of 303 days in FY2018. The current ratio stood at 1.33 times as on March 31, 2018.

Acuite believes that the liquidity of the company is likely to remain adequate over the near to medium term on account of healthy net cash accruals and no major repayment obligations in the near term.

Outlook: Stable

Acuite believes VIECL will maintain a 'stable' business risk profile over the medium term. The company will continue to benefit from its experienced management. The outlook may be revised to 'Positive' in case the company registers healthy growth in revenues while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in the company's revenues or profit margins, or in case of deterioration in the company's financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	100.09	89.59	68.19
EBITDA	Rs. Cr.	14.40	12.77	13.98
PAT	Rs. Cr.	1.89	0.86	0.36
EBITDA Margin	(%)	14.39	14.26	20.51
PAT Margin	(%)	1.89	0.96	0.53
ROCE	(%)	7.80	6.86	6.49
Total Debt/Tangible Net Worth	Times	0.53	0.61	0.81
PBDIT/Interest	Times	2.74	2.17	2.19
Total Debt/PBDIT	Times	2.40	2.73	3.25
Gross Current Assets (Days)	Days	303	330	433

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-40.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
23-March-2019	Cash Credit	Long Term	20.00	ACUITE BB / Stable (Reaffirmed)
	Cash Credit	Long Term	9.50	ACUITE BB / Stable (Reaffirmed)
	Term Loan	Long Term	0.75	ACUITE BB / Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	5.25	ACUITE BB / Stable (Reaffirmed)
	Letter of Credit	Short Term	2.50	ACUITE A4+ (Reaffirmed)
	Letter of Credit	Short Term	3.00	ACUITE A4+ (Reaffirmed)
	Bank Guarantee	Short Term	13.30	ACUITE A4+ (Reaffirmed)
	Bank Guarantee	Short Term	1.70	ACUITE A4+ (Reaffirmed)
06-Sep-2018	Cash Credit	Long Term	20.00	ACUITE BB / Stable (Assigned)
	Cash Credit	Long Term	9.50	ACUITE BB / Stable (Assigned)
	Term Loan	Long Term	0.75	ACUITE BB / Stable (Assigned)
	Proposed Bank Facility	Long Term	0.25	ACUITE BB / Stable (Assigned)
	Letter of Credit	Short Term	2.50	ACUITE A4+ (Assigned)
	Letter of Credit	Short Term	3.00	ACUITE A4+ (Assigned)
	Bank Guarantee	Short Term	13.30	ACUITE A4+ (Assigned)
	Bank Guarantee	Short Term	1.70	ACUITE A4+ (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE BB+ / Stable (Upgraded)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	9.50	ACUITE BB+ / Stable (Upgraded)

Term loans	Not Applicable	Not Applicable	Not Applicable	0.75	ACUITE BB+ / Stable (Upgraded)
Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	5.25	ACUITE BB+ / Stable (Upgraded)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE A4+ (Reaffirmed)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A4+ (Reaffirmed)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	13.30	ACUITE A4+ (Reaffirmed)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	1.70	ACUITE A4+ (Reaffirmed)

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About Acuité Ratings & Research:

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