

Press Release

Volta Green Structures Private Limited

May 10, 2021

Rating Assigned



Total Bank Facilities Rated*	Rs. 61.00 Cr.
Long Term Rating	ACUITE BB+ / Outlook: Stable (Assigned)
Short Term Rating	ACUITE A4+ (Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has assigned its long-term rating of '**ACUITE BB+**' (read as **ACUITE Double B plus**) and short-term rating of '**ACUITE A4+**' (read as **ACUITE four plus**) on the Rs. 61.00 Cr bank facilities of Volta Green Structures Private Limited (VGSPL). The outlook is '**Stable**'.

Volta Green Structures Private Limited (VGSPL) is a Hyderabad based company, incorporated in 2015. VGSPL is promoted by Mr. Subhas Chandra Bose Venigalla and Mr. Basavaiah Rayipudi. The Company is engaged in manufacturing and erection of Pre-Engineered Buildings (PEB). The company operates in three key business segments: pre-engineered building structures, Rapid Building System, High Rise Structures. It has one manufacturing facility located at Hyderabad in Telangana with an installed PEB manufacturing capacity of 15,000 Metric tons per annum.

Analytical Approach

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

Key Rating Drivers

Strengths

• Promoter's extensive experience in the steel fabrication industry

The promoter, Mr V. Subhas Chandra Bose and Mr. R Basavaiah have spent over three decades through association with other companies engaged in manufacturing and installation of steel prefabricated structures. Presence of over three decades in the PEB segment has enabled the promoters to establish strong relationship with key customers and suppliers resulting in repeat orders, steady growth in scale. VGSPL has maintained strong relationships with customers such as Biological E Ltd, JSW Ltd, Mahindra & Mahindra Ltd, Flex Ltd, and MRF Ltd among others. Acuite believes that the company will continue to derive benefits from the extensive experience of the promoters.

• Above-Average financial risk profile

VGSPL's financial risk profile is above-average, marked by moderate networth and leveraged capital structure and debt protection metrics. VGSPL has moderate net worth at Rs. 19.38 Cr as on March 31, 2020 against Rs. 13.88 Cr as on March 31, 2019. Company has moderate capital structure marked by high gearing (debt-to-equity) and total outside liabilities to tangible networth (TOL/TNW) ratio of 1.59 times and 4.03 times respectively, as on March 31, 2020 vis-à-vis 2.56 times and 6.64 times March 31, 2019. Debt protection metrics is moderate, reflected in interest coverage (ICR) and net cash accrual to total debt ratio (NCA/TD) of 1.38 times and 0.11 times, respectively, in FY2020 vis-à-vis 1.45 times and 0.06 times for FY2019. Its accruals are expected in the range of Rs. 1.50-2.50 Cr over the medium term, against repayment obligations of Rs.1.00-1.60 Cr. Acuite believes that in absence of any major debt-funded capital expenditure; the financial risk profile is expected to remain at similar levels over the medium term.

Weaknesses

• Working capital intensive nature of operations

VGSP's operations are working capital intensive in nature as reflected by its gross current asset (GCA) days of 203-242 days for FY2018-FY2020 which emanates from inventory days of 73-109 days and Debtor days of 83-132 days during FY2018-FY2020. The GCA remains high on account of large inventory holding necessary to meet the orders. Also, other current assets consist of advance given to suppliers and taxes receivables have also resulted into increased GCA days. The company gives credit period of 115-137 days to its customers. Its working capital limits at about 80 percent over the past six months ended February 2021. Acuite believes that VGSP's operations continue to be at similar levels owing to the industry business model.

• Moderate scale of operations and moderate order book

The company generated revenue of Rs 123.93 Cr during FY2020 as against Rs.125.78 Cr over previous year. During current year, owing to COVID-19, the company has generated lower revenue of Rs 60 Cr during the 11 months of FY2021 and expects to achieve revenue upto ~Rs.70-75 Cr by March 2021. The current order book is of Rs. 75 Cr as on March 31, 2021, which provides limited revenue visibility necessitating order build up. The overall revenue is expected to decline by ~40 percent in FY2021 on account of notional revenue loss due to lockdown and slow order book movement. Acuite believes that the current economic slowdown in the backdrop of COVID-19 pandemic, ability to get new orders and ramp up its scale will remain a key monitorable.

• Susceptibility of operating margin to competitive pressure and volatility in raw material prices

Operations are highly susceptible to cyclicity in demand as well as competitive pressure in the steel fabrication industry. The operating margins, however, improved to 5.96 percent in FY2019 to 6.68 percent in FY2020 on the back of execution of a few high margin orders and various cost cutting measures undertaken by the company. Operating margins are expected to be impacted during current year given revenue is expected to take a significant hit in FY2021 on account of lockdown due to COVID-19 pandemic and increased steel prices and competitive pricing with low margins for a few orders. Acuite believes that VGSP's performance is susceptible to fluctuation in operating margin due to competitive pressure and volatility in raw material prices.

Liquidity Position: Adequate

VGSP's liquidity is adequate, marked by adequate net cash accruals against its debt obligations, albeit constrained by working capital intensive operations. VGSP generated cash accruals of Rs.3.36 Cr in FY2020 against debt obligations of Rs.1.60 Cr for the same period. The cash accrual of the company is estimated in the range of around Rs.1.50 -2.70 Cr during FY2021-23 against repayment obligations of Rs.1.00 Cr to Rs.1.60 Cr for the same period. The average fund based working capital utilization stood moderate at 80 percent for the past 6 months ended February 2021. Cash and bank balance stood at Rs 0.37 Cr and current ratio at 1.16 times as on March 31, 2020. Acuite believes that though cash accruals are adequate, however, incremental working capital requirement for the growing size of operations are expected to absorb the cushion in the liquidity.

Rating Sensitivities

- Increase in order inflow, providing revenue visibility in the medium term
- Significant improvement in scale of operations, while maintaining profitability margins
- Any large debt-funded capital expenditure, resulting in deterioration of financial risk profile.

Outlook: Stable

Acuite believes that VGSP will continue to benefit over the medium term due to its experienced management and moderate order book providing revenue visibility. The outlook may be revised to 'Positive', in case of timely execution of its unexecuted order book leading to higher-than-expected revenues and profitability with improvement in working capital management. Conversely, the outlook may be revised to 'Negative' in case VGSP registers lower-than-expected revenues and profitability or any significant stretch in its working capital management or larger-than-expected debt-funded capital expenditure leads to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	123.93	125.78
PAT	Rs. Cr.	2.04	0.75
PAT Margin	(%)	1.65	0.59
Total Debt/Tangible Net Worth	Times	1.59	2.56
PBDIT/Interest	Times	1.38	1.45

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

None

Any other information

None

Material covenants

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Infrastructure Sector Entities- <https://www.acuite.in/view-rating-criteria-51.htm>
- Manufacturing Sector Entities- <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.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. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	18.00	ACUITE BB+/ Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE BB+/ Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BB+/ Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	28.00*	ACUITE A4+ (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	5.00@	ACUITE A4+ (Assigned)

*LC Rs.28 Cr is sublimit to BG; @ LC Rs.5 Cr is sublimit to BG

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About Acuité Ratings & Research:

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