

## Press Release

### Vesan Engineering Private Limited

October 20, 2022



## Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	2.00	-	ACUITE A3   Assigned
Bank Loan Ratings	24.00	ACUITE BBB-   Stable   Assigned	-
Total Outstanding Quantum (Rs. Cr)	26.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

## Rating Rationale

Acuite has assigned the long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and the short-term rating of '**ACUITE A3**' (read as **ACUITE A three**) on the Rs.26.00 Cr. bank facilities of Vesan Engineering Private Limited (VEPL). The outlook is '**Stable**'.

### Rationale for rating assigned

The rating assigned takes into account increase in VEPL's revenue, comfortable financial risk profile and efficient working capital operations. It also draws comfort from company's experienced management and established track record of operations. The rating is however constrained by the company's modest scale of operations, customer concentration risk and presence in the highly competitive and cyclical nature of the steel industry. Ability of the company to improve its scale of operations while maintaining profitability and to maintain its working capital cycle will continue to remain a key rating sensitivity factor.

### About the Company

VEPL incorporated in the year 1995 is engaged into manufacturing of gears, shafts & other products from closed die forging. The company supplies components as forged, heat treated and in finished conditions with machining to various industries such as automotive, agriculture (farm), earth moving equipment, wind energy, construction, plastic and sugar industry. The manufacturing unit of the company is located at Alandi, Pune and it has forging capacity to produce approximately 5000 tonnes per annum of components.

### Analytical Approach

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

### Key Rating Drivers

### Strengths

### **Experienced management and established track record of operations**

VEPL is engaged in manufacturing of gears, shafts & other products from closed die forging. It has an established operational track record of over two decades. It is promoted by Mr. Anil V. Somalwar who possess 40 years of experience in the field of closed die forging. He is supported by other directors, Mr. Shrikrishna K. Kalambkar, Mrs. Swati A. Somalwar & Mr. Anil G. Kharwadkar who possess over 40 years of experience in the same industry. The promoter & directors are being supported by its team of experienced professionals in managing day to day operations of VEPL. The extensive experience of the promoter and directors has enabled VEPL to establish a healthy relationship with its customers and suppliers.

Acuité believes that VEPL will continue to benefit from its experienced management and established track record of operations.

### **Comfortable gearing and coverage indicators albeit modest network**

Financial risk profile of VEPL is comfortable marked by comfortable gearing and coverage indicators. However, the net worth stood modest at Rs. 12 Cr. as on March 31, 2022 against Rs. 7 Cr. as on March 31, 2021. It also includes the amount of Rs.1.41 Cr as quasi equity since the unsecured loans from promoters/directors infused into the business are subordinated to bank borrowings. The gearing (debt-equity) has increased marginally to 0.74 times as on 31 March, 2022 as against 0.52 times as on 31 March, 2021 due to an increase in the borrowings for VEPL's capex plans. The gearing of the company is however expected to further increase over the medium term on account of increase in the long term and short-term borrowings expected towards scheduled debt funded capex plan of increasing the installed capacity of machining process by developing an additional unit and adding more number of machineries. The total debt of Rs.9 Cr as on 31 March, 2022 consists of long term bank borrowings of Rs.4 Cr and short term working capital limit of Rs.5 Cr.

The interest coverage ratio and DSCR stood high at 15.23 times and 3.98 times for FY2022 as against 10.11 times and 2.54 times for FY2021. The Net Cash Accruals to Total debt stood marginally lower at 0.62 times for FY2022 as against 0.76 times for FY2021. The Total outside liabilities to Tangible net worth has improved to 1.76 times for FY2022 as against 2.28 times for FY2021.

Acuité believes that the financial risk profile of VEPL will remain comfortable over the medium term albeit some moderation on account of increase in debt levels for its proposed debt funded capex plan.

### **Improving operating performance**

VEPL reported revenues of Rs.58 Cr for FY2022 as against Rs.35 Cr in FY2021 which is a growth of ~68 percent and has achieved this mainly on account of increase in the sale of gears, shafts & other components which are forged, heat treated and sold in finished conditions with machining process in both domestic and export markets which contributed ~87 percent and ~13 percent of the sales in FY2022 as against ~96 percent and ~4 percent in FY2021. Apart from this, the company has established relationships with its reputed automotive clienteles like IGW India Technologies, Carraro India, Eaton Industrial Systems, Bharat Gears, Bharat Forge, Mahindra CIE Automotive amongst others from whom they receive repetitive orders which has helped the company to achieve a higher revenue.

The operating margin of the company has increased to 14.13 percent in FY2022 as against 11.76 percent in FY2021 as well as the net profit margin of the company has improved to 7.50 percent in FY2022 as against 4.89 percent in FY2021 on account of overall increase in the operating performance of the company.

Acuité believes that VEPL's ability to improve its scale of operations while maintaining its profitability in near to medium term will remain a key rating sensitivity factor.

### **Weaknesses**

**Modest scale of operations and customer concentration risk**

VEPL is operating at a modest scale of operations reflected in the revenue of Rs. 58 Cr. in FY2022 against Rs.35 Cr. in FY2021, given it has been operational since 1995. The company's ability to absorb any unexpected losses is also constrained given its modest networth of Rs. 12 Cr. VEPL is also susceptible to customer concentration risk as one of its largest client, IGW India Technologies Pvt. Ltd. account for almost ~50 percent of its revenue for FY2022 and 5M FY2023, which has however reduced from ~60 percent during the last two years. This makes the company highly susceptible to business risk profile of its top client.

Acuité believes that the ability of the company to expand its customer base in order to mitigate the revenue concentration risk will be a key rating sensitivity factor.

### **Presence in highly competitive and cyclical nature of the steel industry**

VEPL's performance remains vulnerable to cyclical nature in the steel sector as steel being a key raw material in the manufacturing of gears, shafts & other products from closed die forging. Also, demand for steel & other non-ferrous metals depends on the performance of the end user segments like automobile and construction. Indian steel sector is highly competitive due to the presence of large number of players.

### **Rating Sensitivities**

- Ability to improve scale of operations while maintaining profitability
- Ability to maintain working capital cycle
- Ability to expand its customer base in order to mitigate the customer concentration risk

### **Material covenants**

None

### **Liquidity position - Adequate**

VEPL has adequate liquidity position marked by adequate net cash accruals (NCA) to its maturing debt obligations. The company generated cash accruals in the range of Rs.1.50 Cr to Rs.6 Cr during FY2020 to FY2022 against its repayment obligation in the range of Rs.1 Cr to Rs.2 Cr during the same period. Going forward the NCA are expected in the range of Rs.7 Cr to Rs.8 Cr for period FY2023-FY2024 against repayment obligation in the range of Rs.2 Cr to Rs.3 Cr for the same period. The working capital operations of the company are efficient marked by its improved gross current asset (GCA) days of 147 days for FY2022 as against 172 days for FY2021 on account of improved inventory and debtors cycle during the same period. The average bank limit utilization for 6 months' period ended June 2022 stood moderate at ~71 percent. Current ratio stands at 1.27 times as on 31 March 2022. The company has maintained cash & bank balance of Rs.0.03 Cr in FY2022.

Acuité believes that the liquidity of VEPL is likely to remain adequate over the medium term on account of adequate cash accruals against its maturing debt obligations.

### **Outlook: Stable**

Acuité believes that VEPL will maintain 'Stable' outlook over the medium term on account of its experienced management with established track record of operations and comfortable financial risk profile. The outlook may be revised to 'Positive' in case of significant and sustained growth in revenue and profitability while effectively managing its working capital cycle and keeping the debt levels moderate. Conversely, the outlook may be revised to 'Negative' in case of lower than expected growth in revenue or deterioration in the financial and liquidity profile most likely as a result of higher than envisaged working capital requirements.

### **Other Factors affecting Rating**

None

## Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	58.11	34.66
PAT	Rs. Cr.	4.36	1.70
PAT Margin	(%)	7.50	4.89
Total Debt/Tangible Net Worth	Times	0.74	0.52
PBDIT/Interest	Times	15.23	10.11

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

None

## Any other information

None

## Applicable Criteria

- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Application Of 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:

None

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
The Saraswat Cooperative Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB-   Stable   Assigned
The Saraswat Cooperative Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A3   Assigned
Not Applicable	Not Applicable	Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE BBB-   Stable   Assigned
Not Applicable	Not Applicable	Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	3.96	ACUITE BBB-   Stable   Assigned
The Saraswat Cooperative Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	1.09	ACUITE BBB-   Stable   Assigned
The Saraswat Cooperative Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	0.14	ACUITE BBB-   Stable   Assigned

The Saraswat Cooperative Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	3.39	ACUITE BBB-   Stable   Assigned
The Saraswat Cooperative Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	6.66	ACUITE BBB-   Stable   Assigned
The Saraswat Cooperative Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	0.76	ACUITE BBB-   Stable   Assigned

## Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 <a href="mailto:aditya.gupta@acuite.in">aditya.gupta@acuite.in</a>  Nilesh Soni Analyst-Rating Operations Tel: 022-49294065 <a href="mailto:nilesh.soni@acuite.in">nilesh.soni@acuite.in</a>	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 <a href="mailto:rating.desk@acuite.in">rating.desk@acuite.in</a>

### About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

**Disclaimer:** An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Ratings assigned by Acuité are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind, arising from the use of its ratings. Ratings assigned by Acuité are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website ([www.acuite.in](http://www.acuite.in)) for the latest information on any instrument rated by Acuité.