

## Press Release

### EVOLVENTE TECHNOLOGIES PRIVATE LIMITED (ERSTWHILE VESAN ENGINEERING PRIVATE LIMITED)

January 18, 2024



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

## Rating Rationale

Acuite has reaffirmed 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 Evolvente Technologies Private Limited (Erstwhile Vesan Engineering Private Limited). The outlook is '**Stable**'.

### Rationale for rating reaffirmation

The rating reaffirmation of ETPL takes into account stable operating income albeit decline in profitability margins and moderate financial risk profile. The company's revenue stood at Rs.69 Cr as against Rs.58 Cr which is a growth of ~19 percent achieved based on increase in the sale volumes of its products in both the domestic and exports markets. The company's operating and net profit margins stood decline at 10.78 percent and 4.86 percent in FY2023 as against 14.13 percent and 7.50 percent in FY2022.

The rating also draws comfort from the company's experienced management with an established track record of operations and moderate financial risk profile marked by modest net-worth, moderate gearing and moderate debt protection metrics. The rating is however constrained due to moderately intensive working capital operations and high competition risk. Going forward, ability of ETPL to improve its scale of operations and profitability margins while improving and maintaining an efficient working capital cycle will remain key rating sensitivity factors.

### About the Company

ETPL 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.

### Unsupported Rating

Not Applicable

### Analytical Approach

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

## Key Rating Drivers

## **Strengths**

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

ETPL has an established operational track record of over two decades. It is promoted by Mr. Anil V. Somalvar who possess 40 years of experience in the field of closed die forging. He is supported by other directors, Mr. Shrikishna 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 ETPL. The extensive experience of the promoter and directors has enabled ETPL to establish a healthy relationship with its customers and suppliers.

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

### **Moderate financial risk profile**

Financial risk profile of ETPL is moderate marked by modest net worth, moderate gearing and moderate debt protection metrics. The tangible net-worth of the company stood improved at Rs.16 Cr as on 31 March, 2023 as against Rs.12 Cr as on 31 March, 2022 due to accretion of profits to reserves. It also includes the amount of unsecured loans from directors of Rs.1 Cr been treated as quasi equity since the amount is subordinated to bank borrowings. The gearing (debt-equity) stood increased at 0.94 times as on 31 March, 2023 as against 0.74 times as on 31 March, 2022 due to an increase in the company's overall debt of Rs.15 Cr in FY2023 as against Rs.9 Cr in FY2022. The increase in the company's debt profile is towards completion of the ongoing capex of increasing the overall production capacity of the machining process. The total debt of Rs.15 Cr as on March 31, 2023 comprises of long-term bank borrowings of Rs.9 Cr and short term bank borrowings of Rs.6 Cr. The gearing is expected to further increase over the medium term on account of availing the undisbursed portion of the term loan which is already tied up towards completion of the ongoing capex.

The interest coverage ratio and DSCR though moderated, it remained comfortable at 7.16 times and 2.41 times for FY2023 as against 15.23 times and 3.98 times for FY2022. The Net Cash Accruals to Total debt stood moderated at 0.37 times for FY2023 as against 0.62 times for FY2022. The Total outside liabilities to Tangible net worth stood at 1.70 times for FY2023 as against 1.76 times for FY2022. The Debt-EBITDA ratio stood increased at 1.95 times for FY2023 as against 1.10 times for FY2022.

Acuité believes that the financial risk profile of ETPL will remain moderate over the medium term due to its moderate gearing, modest tangible net worth and moderate debt protection metrics.

### **Increase in revenue albeit decline in profitability margins**

The revenue of ETPL stood improved at Rs.69 Cr in FY2023 as against Rs.58 Cr in FY2022. Despite of increase in the revenue, the operating margin of the company however stood decline at 10.78 percent in FY2023 as against 14.13 percent in FY2022 due to an increase in the cost of raw materials especially steel which is one of the major raw material required by the company in producing its products and in addition to this, there has been an increase in the overall operating expenses during the year for the purpose of completion of the ongoing capex of increasing the production capacity of its machining process. On the other hand, the net profit margin of the company also stood decline at 4.86 percent in FY2023 as against 7.50 percent in FY2022 due to an increase in the interest cost and depreciation charge during the year.

For the current year, as of December 2023, ETPL has achieved revenue of ~Rs.53 Cr as against Rs.54 Cr for the same period during FY2023 and is expected to achieve revenue of ~Rs.72 Cr by the year end. The ongoing capex plan of the company is scheduled to be completed by Q1 FY2025 which will lead towards an improved operating performance ahead.

Acuité believes that the ability of ETPL to improve its scale of operations and profitability margins will remain a key rating sensitivity factor.

## **Weaknesses**

### **Moderately working capital intensive operations**

The working capital operations of ETPL are moderately intensive marked by its Gross Current Assets (GCA) of 129 days for FY2023 which stood improved as against 147 days for FY2022. This is on account of its inventory and receivables cycle which stood improved at 46 days and 83 days for FY2023 as against 53 days and 95 days for FY2022. On the other hand, the creditors cycle of the company also stood improved at 91 days for FY2023 as against 118 days for FY2022. The average bank limit utilization for 6 months' period ended October 2023 stood at ~72 percent.

Acuité believes that the ability of ETPL to improve and maintain an efficient working capital cycle over the medium term will remain a key rating sensitivity factor.

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

ETPL's performance remains vulnerable to cyclicity 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 and profitability margins
- Ability to improve and maintain an efficient working capital cycle

### **Liquidity Position - Adequate**

ETPL has adequate liquidity position marked by sufficient net cash accruals (NCA) to its maturing debt obligations. The company generated cash accruals in the range of Rs.3 Cr to Rs.5 Cr during FY2021 to FY2023 against its debt repayment obligation in the range of Rs.1 Cr to Rs.3 Cr during the same period. Going forward, the NCA are expected in the range of Rs.7 Cr to Rs.9 Cr for the period FY2024-FY2025 against its debt repayment obligation in the range of Rs.3 Cr to Rs.4 Cr during the same period. The working capital operations of the company are moderately intensive marked by its gross current asset (GCA) days of 129 days for FY2023. The average bank limit utilization for 6 months' period ended October 2023 stood at ~72 percent. Current ratio stands at 1.25 times as on 31 March 2023. The company has maintained cash & bank balance of Rs.0.01 Cr in FY2023.

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

### **Outlook: Stable**

Acuité believes that ETPL will maintain 'Stable' outlook over the medium term on account of its experienced management with an established track record of operations. The outlook may be revised to 'Positive' in case of higher-than-expected 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 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	68.94	58.11
PAT	Rs. Cr.	3.35	4.36
PAT Margin	(%)	4.86	7.50
Total Debt/Tangible Net Worth	Times	0.94	0.74
PBDIT/Interest	Times	7.16	15.23

### 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-52.htm>
- Entities In Manufacturing Sector:- <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

### Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on [www.acuite.in](http://www.acuite.in)

## Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
20 Oct 2022	Term Loan	Long Term	0.14	ACUITE BBB-   Stable (Assigned)
	Letter of Credit	Short Term	2.00	ACUITE A3 (Assigned)
	Term Loan	Long Term	1.09	ACUITE BBB-   Stable (Assigned)
	Cash Credit	Long Term	5.00	ACUITE BBB-   Stable (Assigned)
	Term Loan	Long Term	6.66	ACUITE BBB-   Stable (Assigned)
	Term Loan	Long Term	3.39	ACUITE BBB-   Stable (Assigned)
	Proposed Long Term Loan	Long Term	3.96	ACUITE BBB-   Stable (Assigned)
	Term Loan	Long Term	0.76	ACUITE BBB-   Stable (Assigned)
	Proposed Cash Credit	Long Term	3.00	ACUITE BBB-   Stable (Assigned)

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
The Saraswat Cooperative Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	8.00	ACUITE BBB-   Stable   Reaffirmed
The Saraswat Cooperative Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	2.00	ACUITE A3   Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	Simple	3.96	ACUITE BBB-   Stable   Reaffirmed
The Saraswat Cooperative Bank Ltd	Not Applicable	Term Loan	Not available	Not available	31 Mar 2027	Simple	1.09	ACUITE BBB-   Stable   Reaffirmed
The Saraswat Cooperative Bank Ltd	Not Applicable	Term Loan	Not available	Not available	31 Mar 2027	Simple	0.14	ACUITE BBB-   Stable   Reaffirmed
The Saraswat Cooperative Bank Ltd	Not Applicable	Term Loan	Not available	Not available	31 Mar 2027	Simple	3.39	ACUITE BBB-   Stable   Reaffirmed
The Saraswat Cooperative Bank Ltd	Not Applicable	Term Loan	Not available	Not available	31 Mar 2027	Simple	6.66	ACUITE BBB-   Stable   Reaffirmed
The Saraswat Cooperative Bank Ltd	Not Applicable	Term Loan	Not available	Not available	31 Mar 2027	Simple	0.76	ACUITE BBB-   Stable   Reaffirmed

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### 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.

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