Press Release

VBC Hydraulics

May 30, 2019

Rating Assigned

Total Bank Facilities Rated*	Rs. 10.16 Cr.
Long Term Rating	ACUITE B+ / Outlook: Stable

** Refer Annexure for details*

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE B+**' **(read as ACUITE B plus)** to the Rs. 10.16 crore bank facilities of VBC Hydraulics (VBC). The outlook is **'Stable'**.

Established in 1995, VBC is a Gujarat-based proprietorship concern promoted by Mr. Bhavesh Shah. The firm is engaged in manufacturing of hydraulic gear pumps. These hydraulic pumps have wide usages in tractors, road construction equipments, machine tools, fork lifts, plastic and rubber moulding equipments, etc. The firm has its manufacturing facility located in Ahmadabad, Gujarat with installed capacity to manufacture 5000 pumps per month.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the VBC to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management and reputed clientele**

  The promoter, Mr. Bhavesh Shah, has been in same line of business since inception and has more than two decades of experience in material handling industry. The promoter's extensive experience has helped the firm to establish longstanding relationship with its reputed clients like Godrej & Boyce Manufacturing Company Limited, Voltas Limited and Escorts Limited to name a few.

Weaknesses

- **Modest scale of operations**

  The firm has modest scale of operations despite having its presence in the industry for more than two decades marked by operating income of Rs.9.71 crore in FY2018 as against Rs.8.74 crore in FY2017 and Rs.8.74 crore in FY2016. The firm booked revenue of Rs.12.69 crore for FY2019 (Provisional). However, the firm's operating margins stood healthy at 18.82 percent in FY2018 as against 19.24 percent in FY2017. The firm reported Profit after Tax (PAT) margin of 4.73 percent in FY2018 against 1.37 percent in FY2017. The significant improvement in PAT margins is on account of increase in operating profit and decline is depreciation cost. Acuité believes that the growth in revenue and absence of any capex plans are expected to support the profitability of the firm.

- **Moderate financial risk profile**

  The financial risk profile of the firm is moderate marked by tangible net worth of Rs.2.26 crore as on 31 March, 2018. The gearing ratio deteriorated and stood at 3.21 times as on 31 March, 2018 as against 1.61 times in the previous year. The deterioration in gearing was on account of addition of new term loans for further capital expenditure. The total debt of Rs.7.26 crore includes term loan from bank of Rs.5.49 crore, working capital borrowings of Rs.1.72 crore and unsecured loan of Rs.0.05 crore. Interest Coverage Ratio (ICR) stood at 3.03 times in FY2018 as against 2.69 times in FY2017. The total outside liabilities to tangible net worth (TOL/TNW) stood at 4.14 times as on 31 March, 2018 as against 2.41 times in the previous year. The net cash accruals to total debt (NCA/TD) stood at 0.17 times in FY2018 compared to 0.24 times in FY2017. Going forward, Acuité believes that the firm's ability to improve its net worth along with debt protection metrics will remain key sensitivity.

Liquidity position:

The firm has stretched liquidity marked by low net cash accruals as compared to its maturing debt obligations. The firm generated cash accruals of Rs.0.7-1.2 crore during the last three years through 2016-18, while the maturing debt obligations were in the range of Rs.0.3 crore over the same period. The cash accruals are estimated to remain around Rs.1.3-3.0 crore during 2019-21, while its repayment obligations are estimated to be around Rs.1.4 crore. The firm maintains cash and bank balances of Rs.0.06 crore as on March 31, 2018. The current ratio stood moderate at 1.00 times as on March 31, 2018. Acuité believes that the liquidity of the firm is likely to improve over the medium term on account of no long term debt obligation and infusion of capital.

Outlook: Stable

Acuité believes that VBC's outlook will remain 'Stable' over the medium term on back of experienced management and reputed clientele. The outlook may be revised to 'Positive' in case of higher than expected growth in revenues while improving financial risk profile. The outlook may be revised to 'Negative' in case of steep decline in revenues and profitability, or working capital requirements deteriorating financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	9.71	8.74	8.74
EBITDA	Rs. Cr.	1.83	1.68	1.41
PAT	Rs. Cr.	0.46	0.12	0.04
EBITDA Margin	(%)	18.82	19.24	16.15
PAT Margin	(%)	4.73	1.37	0.51
ROCE	(%)	12.71	9.44	16.81
Total Debt/Tangible Net Worth	Times	3.21	1.61	4.05
PBDIT/Interest	Times	3.03	2.69	2.10
Total Debt/PBDIT	Times	3.88	2.62	4.84
Gross Current Assets (Days)	Days	139	160	169

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

None

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - https://www.acuite.in/criteria-default.htm
- Manufacturing Entities - https://www.acuite.in/view-rating-criteria-4.htm
- Financial Ratios And Adjustments -https://www.acuite.in/view-rating-criteria-20.htm

Note on complexity levels of the rated instrument

https://www.acuite.in/criteria-complexity-levels.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
Term Loan	Not Applicable	Not Applicable	Not Applicable	4.49	ACUITE B+ / Stable
Term Loan	Not Applicable	Not Applicable	Not Applicable	2.57	ACUITE B+ / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.30	ACUITE B+ / Stable

Proposed Fund Based Facility	Not Applicable	Not Applicable	Not Applicable	0.80	ACUITE B+ / Stable

Contacts

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About Acuité Ratings & Research:
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