

Press Release

VBC Hydraulics

March 02, 2021

Rating Upgraded



Total Bank Facilities Rated	Rs.10.16 crore
Long Term Rating	ACUITE BB-/ Stable (Upgraded from ACUITE B+/Stable)

* Refer Annexure for details

Rating Rationale

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

The rating upgrade is driven mainly by the overall improvement in the business risk profile as reflected from the increase in revenues along with improvement in the liquidity position of the firm. Acuité believes that the firm will sustain the revenue growth and would continue to draw comfort from its experienced management over the medium term.

Established in 1995, VBC Hydraulics (VBC) is a Gujarat based proprietorship concern promoted by Mr. Bhavesh Shah. The firm is engaged in the manufacturing of hydraulic gear pumps and power pumps. The firm has its manufacturing facility located in Ahmadabad, Gujarat with an installed capacity to manufacture 700 pumps per day.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced management and long track record of operations**

The proprietor of the firm Mr. Bhavesh Shah has more than two decades of experience in the manufacturing industry. Acuité believes the long track record and rich experience of the promoters and their healthy relations with reputed customers, including Voltas Limited, Godrej group, Escorts Limited and Bosch will continue to support the business risk profile over the medium term.

- **Growth in operating income**

The operating revenue of the firm has grown from Rs.9.71 crores in FY2018 to Rs.14.30 crores in FY 2020 at a 2 year CAGR of 13.77 per cent .The growth in the top line was on account of increase in capacity from 500 pumps per day to 700 pumps per day presently. Going forward, the top-line is expected to increase further on account of enhancement in capacity to 1400 pumps per day over the medium term. Acuité believes that VBC will maintain its strong operating performance with healthy growth in revenues over the medium term.

Weakness

- **Working capital intensive operations**

The operations of the firm are working capital intensive marked by high Gross Current Asset (GCA) days of 148 days in FY2020 as against 144 days in the previous year. The high GCA days are mainly on account of high debtor days, which stood at 107 days in FY2020 as compared to 70 days in the previous year. The maximum credit period allowed to their customers is around 3 months. The inventory days stood low at 26 days in FY2020 as compared to 44 days in FY2019. Acuité believes that the operations would remain working capital intensive mainly due to the extended credit period allowed to their customers.

- **Debt funded capex plan**

The firm is currently undertaking a capex plan to enhance its pump capacity from 700 pumps per day to 1400

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pumps per day. The total project cost is Rs.10 crore which would be funded by term loan from bank of Rs.6.25 crore and rest through own funds. The project is expected to be completed by June 2021. Acuité believes that the firm's ability to complete the project on time without any significant delay and cost overruns would remain a key credit monitorable.

Rating Sensitivity

- Sustenance of increase in operating income
- Improvement of financial risk profile
- Timely completion of the capital expenditure plan

Material Covenants

None

Liquidity Profile: Adequate

The firm's liquidity is adequate marked by cash accruals of Rs.2.18 crores in FY2020 against debt repayment of Rs.0.72 crore during the previous financial year. The net cash accruals are expected to be ranging from Rs.3.94 crores to Rs.2.74 crores during FY21-23 against its maturing debt obligations of around Rs.1.87 to Rs.3.17 crores over the same period. The firm has not availed any loan moratorium but has availed a COVID loan of Rs.0.27 crore. The bank limit remains utilized at 67 percent over six months ended on January 2021. The unencumbered cash and bank balances stood at Rs.0.07 crores as on March 31, 2020. However, the current ratio stood unity at 0.94 times as on March 31, 2020 as compared to 0.85 times as on March 31, 2019. The operations of the firm are working capital intensive marked by high Gross Current Asset (GCA) days of 148 days in FY2020 as against 144 days in the previous year. Acuité believes that the liquidity of the firm will improve, supported by the increase in accruals in the medium term.

Outlook: Stable

Acuité believes that the firm will maintain a 'Stable' outlook over the medium term on account of the extensive experience of the promoters and growth in operating income. The outlook may be revised to 'Positive' if the firm achieves substantial improvement in its working capital operations. Conversely, the outlook may be revised to 'Negative' in case of a steep decline in revenues and profitability or financial risk profile leading to deterioration in liquidity.

About the Rated Entity - Key Financials

	Unit	FY20(Actual)	FY19(Actual)
Operating Income	Rs. Cr.	14.30	12.68
PAT	Rs. Cr.	0.08	0.05
PAT Margin	(%)	0.58	0.41
Total Debt/Tangible Net Worth	Times	2.94	4.34
PBDIT/Interest	Times	3.31	3.62

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

None

Any other information

Not Applicable

Applicable Criteria

- Application of Financial Ratios and Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Default Recognition -<https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities- <https://www.acuite.in/view-rating-criteria-59.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings / Outlook
11-Aug-2020	Term Loan	Long Term	4.49	ACUITE B+ (Indicative)
	Term Loan	Long Term	2.57	ACUITE B+ (Indicative)
	Cash Credit	Long Term	2.30	ACUITE B+ (Indicative)
	Proposed bank facility	Long Term	0.80	ACUITE B+ (Indicative)
30-May-2019	Term Loan	Long Term	4.49	ACUITE B+/Stable (Assigned)
	Term Loan	Long Term	2.57	ACUITE B+/Stable (Assigned)
	Cash Credit	Long Term	2.30	ACUITE B+/Stable (Assigned)
	Proposed bank facility	Long Term	0.80	ACUITE B+/Stable (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs.) Crore	Ratings/Outlook
Term Loan	Not Available	Not Applicable	Not Available	5.29	ACUITE BB-/Stable (Upgraded)
Term Loan	Not Available	Not Applicable	Not Available	2.57	ACUITE BB-/Stable (Upgraded)
Cash Credit	Not Available	Not Applicable	Not Available	2.30	ACUITE BB-/Stable (Upgraded)

Contacts

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About Acuité Ratings & Research:

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