January 29, 2015

Facilities	Amount (Rs. Crore)	Ratings
Cash Credit	6.40	SMERA B+/Stable (Assigned)
Cash Credit (proposed)	18.60	SMERA B+/Stable (Assigned)
Term Loan (proposed)	43.00	SMERA B+/Stable (Assigned)
Letter of Credit/Buyer's Credit	5.50	SMERA A4 (Assigned)
Letter of Credit/Buyer's Credit (proposed)	14.50	SMERA A4 (Assigned)

SMERA has assigned a rating of **'SMERA B+' (read as SMERA single B plus)** to the Rs.68.00 crore fund based bank facilities and **'SMERA A4' (read as SMERA A four)** to the Rs.20.00 crore non-fund based bank facilities of Vahini Irrigation Private Limited (VIPL). The outlook is **'Stable'**. The ratings are supported by the company's long track record of operations and experienced management. However, the ratings are constrained by the company's high gearing level. The ratings factor in risks related to the company's debt-funded capex. The ratings are also constrained by the susceptibility of the company's profit margins to fluctuations in raw material prices and forex rates.

VIPL, incorporated in 1999, is a Karnataka-based company engaged in manufacturing of polyvinyl chloride (PVC) pipes and drip irrigation equipment. VIPL benefits from its experienced management. Mr. Hemraj Sencha and Mr. Annadanaiah, directors of VIPL, have around two decades of experience in the company's line of business.

VIPL's debt-equity ratio is high at 2.65 times as on March 31, 2014. The company's moderate coverage indicators are reflected in interest coverage ratio (ICR) of 2.13 times and debt service coverage ratio (DSCR) of 1.57 times in FY2013–14 (refers to financial year, April 01 to March 31). VIPL has undertaken debt-funded capex towards diversification and capacity expansion. The company is setting up a new factory unit at project cost of Rs.84.49 crore, which is likely to be funded through promoters' funds of Rs.16.49 crore and bank borrowings of Rs.68.00 crore. VIPL expects to commission the project in September 2015. Notwithstanding the benefits of diversification and capacity expansion, SMERA believes the aforementioned capex will adversely affect the financial risk profile of the company.

Raw material cost accounts for ~78 per cent of VIPL's total cost of sales. The company's profitability is thus exposed to volatility in prices of raw material (PVC resins). VIPL's profit margins are also exposed to forex fluctuation risk inherent in unhedged import purchases.

Outlook: Stable

SMERA believes VIPL will maintain a stable business risk profile over the medium term. The company will continue to benefit from its experienced management. The outlook may be revised to 'Positive' in case the company registers substantial growth in scale of operations while maintaining comfortable profit margins and achieving improvement in financial risk profile. The outlook may be revised to 'Negative' in case the company fails to achieve the projected scalability amidst intensifying competition in its area of operations, or in case of deterioration in the company's financial risk profile on account of higher-than-expected increase in debt-funded capital expenditure and working capital requirements.

About the company

VIPL, incorporated in 1999, is a Karnataka-based company engaged in manufacturing of PVC pipes and drip irrigation equipment. VIPL has installed capacity of 7,500 metric tonnes per annum for PVC pipes. The company is diversifying into manufacturing of HDPE pipes, PVC fittings, water tanks and sprinklers. VIPL is setting up a new factory unit in Honnudike, Karnataka. The company is also undertaking capacity expansion of 14,040 MTPA (for production of PVC pipes).

For FY2013–14, VIPL reported profit after tax (PAT) of Rs.0.70 crore on operating income of Rs.46.50 crore, as compared with PAT of Rs.0.39 crore on operating income of Rs.38.07 crore in FY2012–13. The company's net worth stood at Rs.4.16 crore as on March 31, 2014, as compared with Rs.3.45 crore a year earlier.

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