

February 28, 2023

Versatile Engineers: Ratings downgraded to [ICRA]B+ (Stable) and removed from 'Issuer Not Cooperating' category

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term Loans	3.50	3.50	[ICRA]B+ (Stable); ratings downgraded from [ICRA]BB- (Stable) ISSUER NOT COOPERATING* and removed from 'Issuer Not Cooperating' category
Long-term – Fund based – Cash Credit	9.00	9.00	[ICRA]B+ (Stable); ratings downgraded from [ICRA]BB- (Stable) ISSUER NOT COOPERATING* and removed from 'Issuer Not Cooperating' category
Total	12.50	12.50	

*Instrument details are provided in Annexure-I

Rationale

The rating downgrade factors in the rising debt levels of Versatile Engineers (VE), which along with moderation in operating margins have resulted in deterioration of debt coverage metrics. The firm remains exposed to raw material price fluctuations and input cost pressures, which are expected to keep credit metrics under pressure. VE remains exposed to the stiff competition in the auto component machining industry as well as the cyclicity of the end-user industries, particularly tractors. Moreover, given VE's constitution as a partnership firm, its capital structure is exposed to discrete risks.

The ratings, however, favourably factor in the established track record of VE's promoters in the auto components industry, which has resulted in repeat orders from its client base of reputed players like Mahindra & Mahindra and CNH Industrial, enabling it to register a healthy revenue growth over the last five fiscals. While its revenues remain concentrated on a few clients, the track record of VE's partners having dealt with these said clients provides comfort.

The Stable outlook for the ratings reflects ICRA's expectation of steady order flow from the tractor segment given the buoyancy in the sector. VE's recent capacity addition is also expected to support its revenue growth.

Key rating drivers and their description

Credit strengths

Established track record of partners in auto components industry – VE is a part of the Kolhapur-based, Versatile Group, with an established track record in the auto components industry for more than four decades.

Reputed client profile – The firm has been associated with reputed domestic as well as international OEMs along with Tier I suppliers for over a decade. Its client base consists of reputed names including Mahindra & Mahindra, the Carraro Group and CNH Industrial, among others. The company's revenues are diversified with 23% coming from export clients.

Credit challenges

Modest profit margins owing to limited value addition and increasing leverage resulting in weak debt coverage metrics – During FY2020–FY2022, VE’s operating margins reduced to 2.7% in FY2022 from 3.4% in FY2021 and 5.2% in FY2020 due to an increase in input costs and its inability to pass on the same to its clients owing to its low bargaining power. Moreover, rising debt levels owing to capex have resulted in weak debt coverage metrics as reflected in Debt/OPBDITA of 7.8 times in FY2022.

Modest scale of operations in the highly fragmented auto component machining industry – With a turnover of Rs. 134.7 crore in FY2022 and Rs. 94.7 crore in 9M FY2023 on a provisional basis, the firm has a modest scale of operations in the industry. However, it has been able to display a CAGR of 17% over the five-year period of FY2018–FY2022. The auto component machining industry in India is highly fragmented with many unorganised players, which leads to pricing pressures.

High client concentration risk – VE’s top five customers, involved in agricultural and construction equipment as well as earth-moving machinery, together contributed more than 80% to its total revenues in 9M FY2023. Thus, the firm is exposed to high client concentration risk. However, the risk is mitigated by the healthy client profile and strong relationships with them.

Exposed to inherent cyclicity in agriculture and automotive industry; though ICRA notes sequential improvement in domestic tractor sales – The firm derives more than 50% of its revenues from tractor components, thus exposing it to the inherent cyclicity in the agriculture (tractor segment) and automotive industry. However, domestic volumes of tractors are estimated to remain at healthy levels in FY2023 and FY2024, aided by favourable drivers for rural cash flows.

Risks associated with partnership constitution – Given VE’s constitution as a partnership firm, it is exposed to discrete risks including the possibility of capital withdrawal by the partners and the risk of dissolution of the firm upon the death, retirement or insolvency of the partners. ICRA, however, notes that the partners are expected to infuse capital in the near to medium term to support the funding requirements.

Liquidity position: Stretched

VE’s liquidity is stretched with marginal cash flow from operations, limited buffer in undrawn working capital limit as on December 31, 2022, alongside scheduled repayment obligation for long-term and short-term loans worth ~Rs. 0.74 crore in Q4 FY2023 and Rs. 2.97 crore in FY2024. The average utilisation level for the last 12 months (period ending in December 2022) stood at 93% of sanctioned limits.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if VE’s revenue and profitability improves along with a sustained improvement in its liquidity profile and coverage metrics. Specific credit metric would include Debt/OPBDITA of less than 5.0 times on a sustained basis.

Negative factors – Downward pressure on the rating could arise if there is a sustained decline in earnings or a significant capital withdrawal materially affecting VE’s liquidity profile, debt coverage and leverage.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology – Auto Component Suppliers
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Versatile Engineers is a partnership firm involved in providing machining for ferrous casting. The firm was constituted in 1969 in Kolhapur, Maharashtra, with two partners, Mr. Vitthal Janwadkar and his son, the Late Prabhakar Janwadkar. It was later reconstituted in April 2004 with the retirement of Mr. Vitthal Janwadkar and the admission of Mr. Yatin Janwadkar (son of Mr. Prabhakar). VE provides machining services for automotive components to OEMs and Tier I suppliers. It primarily caters to the tractor industry; although it has some exposure to other auto segments as well.

Key financial indicators (audited)

VE Standalone	FY2021	FY2022
Operating income	110.2	134.7
PAT	0.9	0.2
OPBDITA/OI	3.4%	2.7%
PAT/OI	0.8%	0.2%
Total outside liabilities/Tangible net worth (times)	4.6	4.9
Total debt/OPBDITA (times)	5.6	7.8
Interest coverage (times)	1.3	1.5

PAT: Profit after tax; OPBDITA: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2023)		Chronology of rating history for the past 3 years					
		Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in	Date & rating in FY2022	Date & rating in FY2021		Date & rating in FY2020	
				Feb 28, 2023	Nov 29, 2021	Aug 18, 2020	Jul 16, 2019	Jun 17, 2019	Apr 05, 2019
1	Term loans	3.50	1.25	[ICRA]B+ (Stable)	[ICRA]BB- (Stable); ISSUER NOT COOPERATING	[ICRA]BB- (Stable)	[ICRA]BB- (Stable)	[ICRA]BB- (Stable); ISSUER NOT COOPERATING*	[ICRA]BB- (Stable)
2	Fund-based – Cash credit	9.00	--	[ICRA]B+ (Stable)	[ICRA]BB- (Stable); ISSUER NOT COOPERATING	[ICRA]BB- (Stable)	[ICRA]BB- (Stable)	[ICRA]BB- (Stable); ISSUER NOT COOPERATING*	[ICRA]BB- (Stable)

* Due to non-submission of the no-default statement (NDS)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Term loan	Simple
Long-term – Fund based – Cash credit	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's

credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loans	FY2018	NA	FY2023	3.50	[ICRA]B+ (Stable)
NA	Cash Credit	NA	NA	NA	9.00	[ICRA]B+ (Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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