April 10, 2023

Veer O Metals Private Limited: Long-term rating upgraded; short-term rating reaffirmed; rated amount enhanced.

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund based - Term loans	39.55	65.51	[ICRA]BBB+ (Stable); upgraded from [ICRA]BBB (Stable)/assigned
Long term – Fund based/CC	49.89	60.00	[ICRA]BBB+ (Stable); upgraded from [ICRA]BBB (Stable); assigned
Short term – Non-fund based	21.65	21.65	[ICRA]A2; reaffirmed
Long term/Short term - Unallocated	2.71	3.21	[ICRA]BBB+ (Stable); upgraded from [ICRA]BBB (Stable)/ [ICRA]A2; reaffirmed/ assigned
Total	**113.80**	**150.37**	

**Instrument details are provided in Annexure-I*

Rationale

For arriving at the ratings, ICRA has considered the consolidated financials of Veer O Metal Private Limited (VOMPL) and its wholly-owned subsidiary – Veer O Metal Limited, Philippines.

The rating upgrade considers the expected growth in Veer O Metals Private Limited's (VOMPL's) revenues for FY2023 on the back of a healthy demand for its products, coupled with capacity enhancement plans and new customer addition. ICRA expects the company to record a revenue growth of ~25% in FY2023 with healthy demand sentiments expected to sustain over the medium term. Moreover, the operating margins are also expected to improve by 200 bps in FY2023 over FY2022, following the increase in scale and softening in raw material prices. The ratings also continue to factor in the comfortable capital structure, healthy debt protection metrics and adequate liquidity position. ICRA takes note of VOMPL's operational track record and the extensive experience of the promoters in the sheet-metal fabrication industry and the company's established relationship with reputed domestic and international customers, lending stability to revenues.

The ratings, however, remain constrained by the company's moderate scale of operations that limits its bargaining power with customers, and the highly competitive and fragmented nature of the sheet metal fabrication industry, impacting its pricing flexibility. The ratings continue to factor in the risk of high customer concentration with 43.1% of the revenue derived from sales to the top three customers in FY2022. The ratings also consider the vulnerability of VOMPL's profitability to the volatility in raw material prices and adverse currency movements as the company derives 50-60% of its revenues from exports; however, the risk naturally gets mitigated with 30-40% of its raw material requirements being imported.

The Stable outlook on the rating reflects ICRA's expectation that VOMPL will continue to maintain its credit profile, backed by sustained revenue growth, and comfortable debt coverage indicators and liquidity position.

Key rating drivers and their description

Credit strengths

Longstanding experience of promoters and strong track record of the company- The company has an established track record and the promoters have an experience of over 50 years in the sheet-metal fabrication industry, with capabilities and expertise in CNC punching, CNC bending, welding (MIG, TIG, Resistance, Arc), riveting, phosphate and powder coating of components.

Established relationship with reputed client base- The company caters to a diverse range of industries like IT hardware, UPS & power conditioning, power generation & power distribution, infrastructure, medical electronics, telecommunication, switchgears, electronics and automotive etc. The company has been able to forge strong relationships with established domestic and international customers.

Healthy revenue growth; comfortable capital structure and coverage indicators- The company's revenues, on a consolidated level, grew by 19% from Rs. 331.70 crore in FY2022 from Rs. 288.50 crore in FY2021. The revenues are expected to increase further by 25% YoY , driven by capacity enhancement and new customer additions. The capital structure remained comfortable at 0.78 times as on March 31, 2022. The company's financial risk profile was healthy, characterised by its comfortable debt coverage indicators with interest cover of 4.04 times and DSCR of 2.15 times in FY2022. The company has incurred a capex of Rs. 36 crore and plans to incur an additional capex of Rs. 50.00 crore over FY2024-FY2025, which will be predominantly funded through a term debt. Correspondingly, the debt protection metrics are expected to moderate slightly in FY2023 on YoY but will continue to be at comfortable levels.

Credit challenges

High customer concentration: intensely competitive industry - The company is exposed to customer concentration risks with 43.1% of the revenue derived from sales to the top three customers in FY2022. However, its long-term association with reputed customers, addition of new customers in the recent past and its continuous efforts to add new customers provide stability to the business and aid in revenue diversification. Additionally, stiff competition in the steel metal components industry with limited entry barriers restricts its pricing flexibility.

Margins vulnerable to fluctuations in raw material prices and forex rates- VOMPL's key raw materials are cold-rolled steel, electro galvanised steel, stainless steel, aluminum and copper, the usage of which depends on the different types of products manufactured. The company prices its components on a cost-plus basis, wherein the company can pass on the fluctuations in commodity prices to its major clients through quarterly/half yearly price revisions. However, as the revisions are done only on quarterly/half-yearly basis, the profitability remains vulnerable to the volatility in raw material prices as is evident from the past.

In FY2022, the margins declined by 50 bps at the standalone level and by 150 bps at the consolidated level due to cost pressures. However, the margins are expected to improve in FY2023 with increased scale, softening of commodity prices and the company's plans to carry certain processes in-house and cut down on outsourcing. The company is also exposed to significant foreign exchange risks as it derives ~55-60% of its income from exports (including deemed exports valued in USD). However, the risk gets naturally hedged with imports forming ~30-40% of the total procurement. Further, the company books forwards to hedge 45-50% of its forex exposure, which mitigates the risk to an extent.

Liquidity position: Adequate

VOMPL's liquidity position remains adequate with undrawn working capital limits of Rs.11.2 crore as on February 2023 end and free cash and bank balance of Rs. 3.56 Crore as on February 2023 end. Further, the anticipated cash flow from operations are expected to remain sufficient against the repayment obligation The average utilisation of the fund-based limits was 85% of the sanctioned limits for the 10 months. Apart from this, the company is using funds from other sources, such as Invoicemart, that are available at lower rates and without any collaterals.

Rating sensitivities

Positive factors - ICRA could upgrade VOMPL's ratings if the company demonstrates a sustained improvement in its turnover and margins, supported by enhanced capacities, along with a sustained improvement in the working capital cycle and debt coverage metrics. Specific trigger that would lead to rating upgrade is interest coverage of more than 4 times on a sustained basis.

Negative factors – The ratings may be downgraded if any significant decline in scale or profitability weakens the key credit metrics. The ratings also may be downgraded if any stretch in the working capital cycle or higher-than-anticipated capex weakens its liquidity position. A specific trigger that may lead to a rating downgrade would be DSCR of less than 1.6 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of VOMPL with its wholly-owned subsidiary – Veer O Metal Limited, Philippines

About the company

Veer O Metals Private Limited (VOMPL) was established in 1965 as a partnership firm. It is involved in the manufacturing of sheet metal components. VOMPL produces a wide range of products, including precision sheet metal components, mechanical assemblies, enclosures, racks, sheet metal stamping parts and other machined components. The products cater to the requirements of various industries such as IT hardware, power generation and distribution, telecommunication, electronics etc. The company began operations at Bharat Electronics Limited (BEL) Industrial Area, Benagluru, and catered only to BEL during its initial years. It later expanded its customer base through supplies to leading domestic players across industries. Over the years, the company has set up multiple manufacturing units in Bengaluru, catering to both the domestic and export customers. The company has a subsidiary, Veer-O-Metals (Philippines) Inc, which was set up to cater to certain regional orders.

Key financial indicators (audited)

Consolidated	FY2021	FY2022
Operating income	288.5	331.7
PAT	15.8	8.6
OPBDIT/OI	8.2%	6.7%
PAT/OI	5.5%	2.6%
Total outside liabilities/Tangible net worth (times)	1.2	1.4
Total debt/OPBDIT (times)	2.2	3.4
Interest coverage (times)	5.0	4.0

PAT: Profit after tax; OPBDIT: 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	Current rating (FY2024)				Chronology of rating history for the past 3 years				
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2023 (Rs. crore)	FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020	
					Apr 10, 2023	Jul 07, 2022	Apr 07, 2021	Apr 06, 2020	Jun 25, 2019	Apr 05, 2019
1	**Fund Based - Term Loans**	Long term	65.51	17.43	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
	Fund Based/ CC	Long term	60.00	--	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
	Non-Fund Based	Short term	21.65	--	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2
2	**Unallocated**	Long term and short term	3.21	--	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB (Stable)/ [ICRA]A2	[ICRA]BBB (Stable)/ [ICRA]A2	[ICRA]BBB (Stable)/ [ICRA]A2	[ICRA]BBB (Stable)/ [ICRA]A2	[ICRA]BBB (Stable)/ [ICRA]A2

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term -Fund based-Term Loan	Simple
Long-term- Fund based-Cash Credit	Simple
Short term- Non-Fund based facility	Very Simple
Long term/Short term- Unallocated	NA

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	**Long Term – Fund Based - Term Loans**	FY2022	-	FY2028-29	65.51	[ICRA]BBB+ (Stable)
NA	**Long Term – Fund Based/CC**		-	-	60.00	[ICRA]BBB+ (Stable)
NA	**Short Term – Non-Fund Based**	-	-	-	21.65	[ICRA]A2
NA	**Long Term/Short Term – Unallocated**	-	-	-	3.21	[ICRA]BBB+ (Stable)/ [ICRA]A2

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

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

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About ICRA Limited:

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