March 15, 2024

Versa Drives Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund based - Cash credit	5.10	5.10	[ICRA]BB+ (Stable); reaffirmed
Long-term – Fund based - Term loans	4.60	4.60	[ICRA]BB+ (Stable); reaffirmed
Total	**9.70**	**9.70**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation continues to derive comfort from the significant experience of Versa Drives Private Limited's (VDPL) promoters in the electrical and electronic equipment manufacturing segment for nearly three decades and its proven operational track record. The rating factors in the favourable business prospects of the company's energy-efficient ceiling fans segment, supported by the recent mandate imposed by the BEE[1] under the new Star Rating Standards. The mandate is likely to support the company's near-term revenue growth as the company manufactures energy-efficient fans. Additionally, ICRA expects that new product developments such as solar pump controllers for the agricultural sector and EV drives for two-wheeler (2-W) and three-wheeler (3-W) vehicles currently undergoing trial, will aid VDPL in generating healthy revenue from these segments going forward. The rating also favourably factors in the strategic association of VDPL with Murata Manufacturing Co. Ltd., a globally renowned Japan-based electronics company. This association enables VDPL to receive technical support in new product development and assistance in client acquisition, which augers well for the company's future business prospects. VDPL's comfortable capital structure also supports its credit profile.

The rating, however, remains constrained by the company's moderate scale of operations, which limits the benefits arising from the economies of scale and makes the company vulnerable during sustained industry downturns. The rating is tempered by the high customer concentration, with a major portion of its revenues derived from a single customer in the drives segment. In addition, the rating continues to consider the intense competition prevailing in both the drives and ceiling fans segments, with the presence of renowned global and domestic players. Nonetheless, VDPL's presence in the customised drives segment helps mitigate the competition to an extent.

The Stable outlook on the long-term rating reflects increasing consumer preference for energy-efficient products, which, along with VDPL's technological partnerships and new product developments, is expected to support healthy revenue and earnings growth over the near to medium term.

Key rating drivers and their description

Credit strengths

Favourable business prospects in ceiling fans and new segments – VDPL ventured into the ceiling fans segment in 2012 by launching energy-efficient fans, which use brushless direct current (BLDC) motors instead of conventional motors, under its

[1] Bureau of Energy Efficiency (Rating Agency affiliated to the Government of India)

own brand, Superfan. The proven operational track record in the ceiling fans segment has attracted new customers for the company. With the BEE mandating fan manufacturers to get fan models tested and accredited with Star Rating under the new Star Rating Standards, revenue from the ceiling fans segment is likely to witness an uptick in the coming months. VDPL has developed new products such as solar pump controllers for the agricultural sector and EV drives for 2-W and 3-W vehicles, which are under trial. ICRA expects the recent product developments and collaboration with Murata Manufacturing Co. to aid the company in recording healthy revenue growth in the coming years.

Comfortable capital structure – VDPL's capital structure remains comfortable, evident from a gearing of 0.6 times as on March 31, 2023. This has been aided by its relatively lower reliance on external borrowings due to its moderate working capital intensity and prudent fixed capital deployment to support its modest growth plans.

Strategic investments by Murata Manufacturing Co. Ltd. – VDPL received investments from Murata Manufacturing Co. Ltd. in March 2019 (for a 4% equity stake). Murata provides new product development synergies to VDPL within the drives segment, also assists in new customer acquisition and aids in the expansion of its global footprint. Such factors are expected to diversify the company's customer base within the drives segment, including the new EV drives segment.

Significant experience of promoters – VDPL's promoters, Mr. M. Sundararajan and Mr. K. Durgasharan, have extensive experience of nearly three decades in the electrical and electronics equipment manufacturing industry, which has played an important role in establishing VDPL as a preferred partner for energy-efficient product solutions to OEMs.

Credit challenges

Moderate scale of operations – VDPL's moderate scale of operations limits the benefits arising from economies of scale and makes the company vulnerable to sustained industry downturns. However, ICRA expects a healthy growth in the company's revenue in the near term, supported by the development of various product prototypes, such as solar pump controllers for the agricultural sector and EV drives for the 2-W and 3-W vehicles.

High customer concentration risk – VDPL's customer concentration is high, with over 85% of its overall revenues derived from a single customer in the drives segment during FY2022/ FY2023. Nonetheless, the long-term association with its customer in the drives segment ensures repeat orders and mitigates the risk of customer loss to an extent.

Exposure to intense competition – The presence of renowned global players in the drives segment, such as ABB Group, Schneider Electric, Danfoss Group and Siemens AG, among others, exerts competitive pressure on VDPL. Nevertheless, the company's focus on customised drives for specific end-user requirements, unlike the global players primarily manufacturing general purpose drives, restricts the competition to an extent. Additionally, the company also encounters competition due to the presence of established players in the ceiling fans segment.

Liquidity position: Adequate

VDPL's liquidity position has been assessed as adequate. Its average working capital utilisation between January and December of 2023 remained at ~70%, keeping a reasonable buffer to tide over a temporary period of liquidity tightness. ICRA expects VDPL to comfortably meet its capex commitments and service its debt obligations through internal as well as external cash sources.

Rating sensitivities

Positive factors – ICRA could upgrade VDPL's rating if the company demonstrates a significant increase in its operating income and profit margins, strengthening its net worth and credit metrics.

Negative factors – Pressure on VDPL's rating could arise if (for reasons not restricted to) a sharp decline in the company's revenues and profitability leads to stretched debt protection metrics. Additionally, weakening of the capital structure with TOL/TNW exceeding 2.0 times on a sustained basis could also exert pressure on the ratings.

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 standalone financials of VDPL

About the company

VDPL designs and manufactures variable frequency drives using BLDC and permanent magnet synchronous motors (PMSM), as well as super-efficient ceiling fans sold under its own brand, Superfan. Its manufacturing facility is in Coimbatore, Tamil Nadu. It was incorporated as a partnership firm, Computer Control Corporation, in 1989 by Mr. M. Sundararajan and Mr. Durgasharan. Later, it was reconstituted into a private limited company as Versa Drives Private Limited (VDPL) in 2010. In March 2019, VDPL received private equity investments from Murata Manufacturing Company Limited, a Japan-based electronics manufacturing company, which is renowned in the global market. Murata holds a 4% stake in VDPL as on March 31, 2023.

Key financial indicators

VDPL	FY2022 (Audited)	FY2023 (Audited)
Operating Income (Rs. crore)	38.4	46.7
PAT (Rs. crore)	0.4	0.9
OPBDIT/OI (%)	5.5%	8.0%
PAT/OI (%)	1.0%	1.9%
Total Outside Liabilities/Tangible Net Worth (times)	1.1	1.2
Total Debt/OPBDIT (times)	3.3	2.6
Interest Coverage (times)	3.0	4.5

PAT: Profit after Tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

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)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2020	Date & rating in FY2021
					Mar 15, 2024	Dec 30, 2022	Sep 16, 2021	Aug 13, 2020
1	**Cash credit**	Long term	5.10	-	**[ICRA]BB+ (Stable)**	**[ICRA]BB+ (Stable)**	**[ICRA]BB+ (Stable)**	**[ICRA]BB+ (Stable)**
2	**Term loans**	Long term	4.60	2.99	**[ICRA]BB+ (Stable)**	**[ICRA]BB+ (Stable)**	**[ICRA]BB+ (Stable)**	**[ICRA]BB+ (Stable)**

Amount in Rs. crore

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash Credit	Simple
Term Loans	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-1: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Cash credit**	NA	NA	NA	5.10	[ICRA]BB+ (Stable)
NA	**Term loans**	March 2017	NA	October 2024	4.60	[ICRA]BB+ (Stable)

Source: Company

Annexure-2: List of entities considered for consolidated analysis – Not applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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