Press Release

Victora Auto Private Limited

April 08, 2021

Ratings

Instrument/Facility	Amount (Rs. Crore)	Rating	Rating Action
Term Loan	5.00 (Reduced from Rs. 10.00 crore)	IVR A-/Stable Outlook (IVR A Minus with Stable Outlook)	Reaffirmed
Fund Based Facilities (CC)	20.00*	IVR A-/Stable Outlook (IVR A Minus with Stable Outlook)	Reaffirmed
Fund Based Facilities (Bill Discounting)	180.00 (Enhanced from Rs. 135.00 crore)	IVR A2+ (IVR A Two Plus)	Reaffirmed
Non-Fund Based Facilities (LC/BG)	25.00#	IVR A2+ (IVR A Two Plus)	Reaffirmed
Total	**230.00**		

*Packing credit facility of Rs.15.00 Crore is sublimit of Cash credit facility

#Bank guarantee is sublimit of LC facility

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings reaffirmed to the bank facilities of Victora Auto Private Limited (VAPL) continues to factor in its experienced promoters and management, established clientele and diversified product portfolio with wide market presence and growth in revenue and improved profitability. The rating strengths are however tempered by its exposure to volatility in raw material prices and exchange rate fluctuations, intense competition in the operating spectrum and working capital intensive nature of its operations leading to moderate capital structure.

<u>Key Rating Sensitivities</u>

Upward Rating Factors

- Growth in scale of operations on a sustained basis
- Further improvement in profit margin leading to improvement in liquidity

Downward Rating Factors

- Elongation in working capital cycle affecting the liquidity profile
- Weakening in the capital structure

List of Key Rating Drivers with Detailed Description

Key Rating Strengths:

- **Experienced promoter and management**

  The group is promoted by one Mr. G.S. Banga, belonging to the Banga family of Faridabad. He is an engineer by qualification and he started his venture in 1972 by setting up Banga Tools, a sole proprietorship concern. VAPL (under a different name) essentially commenced operations in 1991 and is currently being managed by his son, Mr. Hardeep Singh Banga, an engineer by qualification having more than 30 years of business experience. Now the third generation of the family being well qualified is actively involved in managing the business. The promoters are supported by a team of professionals who help in day to day management. Further, the promoters have supported the business by infusing subordinated unsecured loans at regular intervals.

- **Established clientele and relationship**

  The company over the years, has developed long lasting relationships with large OEM's and Tier I players (across India and abroad). Clients of the company include reputed names like Tenneco, Faurecia, Eberspeacher, Suzuki, Renault Nissan, Nissan Motors, Toyota, Volkswagen, John Deere, Cummins, Krishna Maruti and Mark Exhaust Systems. This is a strength for the company considering the B2B nature of the business and its diversified client base.

- **Diversified product portfolio**

  The company is engaged in manufacturing of various products catering to clientele across the auto and auto component sectors. Its products comprise sheet metal components, seat frames, exhaust hangers and hot & cold forged automotive components. A diversified product portfolio enables the company to spread its risk and reduces dependency on a single/few products. This insulates the company significantly from rapid technological obsolence which is common in today's dynamic world, more particularly in the automobile segment.

- **Wide market presence**

  The company has a market presence in multiple countries. It has been able to derive a significant portion of its revenues from different countries, thereby being able to reduce its presence on a single market. It exports to countries like USA, France, Czech Republic, Netherlands, Germany and South Africa.

- **Good Technological abilities**

  The company is capable of manufacturing auto components using the latest available technology. Its facilities house single and double acting pneumatic, power and hydraulic presses in capacities ranging from 10 tonnes to 1000 tonnes, CNC bending machines, machining centers and other pre machining facilities. The company employs robotic welding facilities to ensure high quality output with minimal human intervention thereby reducing ineffeciences and creating cost advantage. The company is an ISO/TS 16949:2009 certified organisation.

- **Growth in revenue and improved profitability**

  The company achieved substantial growth in operating income of ~15% to Rs. 848.56 crore from Rs.737.27 cr in FY19. The growth was driven by improvement in export sales which stood at Rs.621 crore in FY20 from Rs.494 crore in FY19. The PAT margin of the company also increased to 6.22% in FY20 from 5.15% in FY19. Improvement in profit margins were driven by decline in overall interest expense of the company. With improvement in profit margin the company has witnessed a steady growth in its cash accruals from ~Rs.63 crore in FY19 to ~Rs. 80 crore in FY20.

Key Weaknesses

- **Exposure to volatility in raw material prices and exchange rate fluctuations**

The key raw material used by the company – steel is an internationally traded commodity. Its prices are driven by demand supply situation in international markets and are susceptible to volatility. Procurement contracts in the automobile industry are executed for the long term and are revised for any price revisions in raw material prices. Though, the company can pass on the impact of raw material price changes to its clientele, its margins still continue to be susceptible to volatility. The company earns a substantial portion of its revenue by way of exports (~73 per cent of total sales), exposing it to forex fluctuation risk. These exports are in terms of USD (60 per cent) and Euro (40 per cent). The company has a hedging policy using forward covers to hedge exposure equivalent to 70 per cent of 5 months sale (at any point in time).

- **Intense competition among players**

  The company is primarily a machining, forging and stamping player manufacturing and supplying components to Indian and Global auto OEM's and Tier 1 players. With the growing number of players in India and abroad, this creates a pressure on market participants to supply quality goods at competitive prices. Additionally other South East Asian countries are rapidly coming up in terms of technology, value engineering and price competitiveness – further increasing competition for the firm and the industry at large.

- **Working capital intensive operations**

  In order to remain competitive with other players in both the global and domestic market, the company needs to extend longer credit to its clients. However, the same is mitigated significantly by availing long credit from its suppliers. The average collection and payment days has although improved in FY20 but stood high at 87 days and 65 days. The average fund based working capital limit utilisation during the last 12 months ending December 2020 was high at 94%.

- **Moderate capital structure albeit satisfactory debt protection metrics**

  The capital structure of the company continued to remain moderate with its moderate overall gearing and satisfactory TOL/ATNW at 1.14x and 1.82x respectively as on March 31,2020 (1.35x & 2.28x respectively as on March 31,2019). The debt protection metrics marked by the interest coverage ratio and Total debt to GCA improved to 3.28x and 3.61 years in FY20 from 2.69x & 4.34 years respectively in FY19.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity: Adequate

The liquidity profile of VAPL is expected to remain adequate marked by its expected satisfactory cash accruals of ~ Rs.80.49 crore vis a- vis its debt repayment obligations aggregating to ~Rs. 30 crore in FY20. The company has sufficient gearing headroom to raise additional debt for its capex. However, the average utilization of its fund-based limits of the company during the past twelve months ended December 2020 remained high at ~94% indicating a limited buffer.

About the Company

Victora Auto Private Limited (VAPL) was originally incorporated under the name SDL Private Limited in NCR in 1991. Its name was changed from SDL Private Limited to Victora SDL Private Limited in May 2011 and then to the current name in July 2011.The Company is engaged in the business of manufacturing of stamping and machining components for automobile and engineering sector. The product range of the company includes sheet metal components, seat frames, exhaust hangers and hot and cold forged automotive components. The company is a part of the Victora group having interests in the auto component and hospitality business. The company has total of six manufacturing facilities, of these, two facilities are based out of Faridabad, one in Manesar, one in Greater Noida and two in Haridwar.

Financials (Standalone):

(Rs. crore)

For the year ended* As on	31-03-2019	31-03-2020
	Audited	Audited

For the year ended* As on	31-03-2019	31-03-2020
Total Operating Income	737.27	848.56
EBITDA	91.82	110.05
PAT	38.90	54.01
Total Debt	272.48	290.56
Tangible Net worth	153.58	207.67
EBITDA Margin (%)	12.45	12.97
PAT Margin (%)	5.15	6.22
Overall Gearing Ratio (x)^	1.35	1.14

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:

Sl. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2016-17
1.	Term Loan	Long term	5.00 (Reduced from Rs. 10.00 crore)	IVR A-/Stable Outlook	IVR A-/Stable Outlook (January 08, 2020)	IVR BBB+/Stable Outlook (Dec 20, 2018)	--
2.	Cash credit*	Long term	20.00*	IVR A-/Stable Outlook	IVR A-/Stable Outlook (January 08, 2020)	IVR BBB+/Stable Outlook (Dec 20, 2018)	--
3.	Bill discounting	Short term	180.00 (Enhanced from Rs. 135.00 crore)	IVR A2+	IVR A2+ (January 08, 2020)	IVR A2 (Dec 20, 2018)	--
4.	Packing credit*	Short term	25.00#	-	-	IVR A2 (Dec 20, 2018)	--

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#Bank guarantee is the sublimit of LC facility

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs.	Rating Assigned/ Outlook

				Crore)	
Long Term Debt-Term Loan	-	-	August 2025	5.00 (Reduced from Rs. 10.00 crore)	IVR A-/Stable Outlook
Long Term Fund Based Facilities-Cash Credit	-	-	-	20.00*	IVR A-/Stable Outlook
Short Term Fund Based Facilities-Bill Discounting	-	-	-	180.00 (Enhanced from Rs. 135.00 crore)	IVR A2+
Non-Fund Based Facilities (LC/BG)	-	-	-	25.00#	IVR A2+

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