Press Release

Victora Automotive Inc.

January 15, 2020

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Ratings Assigned	Rating Action
1.	Long Term Bank Facilities-Term Loan	32.8	IVR BBB /Stable Outlook (IVR Triple B with Stable Outlook)	Upgraded from IVR BBB-/Stable (IVR Triple B Minus with Stable Outlook)
2.	Fund Based facilities (CC)	4.0	IVR BBB /Stable Outlook (IVR Triple B with Stable Outlook)	Upgraded from IVR BBB-/Stable (IVR Triple B Minus with Stable Outlook)
3.	Fund Based facilities (Bill discounting)	64.0	IVR A3+ (IVR A Three Plus)	Upgraded from IVR A3 (IVR A Three)
4.	Fund Based facilities (Packing credit)	7.0	IVR A3+ (IVR A Three Plus)	Upgraded from IVR A3 (IVR A Three)
5.	Non fund based facilities (LC/BG)	10.0	IVR A3+ (IVR A Three Plus)	Upgraded from IVR A3 (IVR A Three)
	Total	**117.8**		

Details of Facilities are in Annexure I

Detailed Rationale

The revision in the ratings assigned to the bank facilities of Victora Automotive Inc (VAI) positively factors in substantial growth in its operating income in FY19 with improvement in cash accruals coupled with improvement in debt protection metrics. Moreover, the ratings continue to factor in its experienced promoters and management, established clientele and diversified product portfolio with wide market presence. The rating strengths are however, tempered by its exposure to volatility in raw material prices, exposure to exchange rate fluctuations, constitution of the firm, intense competition in the operating spectrum and working capital intensive nature of its operations leading to leveraged capital structure.

Key Rating Sensitivities

Upward Rating Factors

- Growth in scale of operations on a sustained basis with improvement in profit margin leading to improvement in liquidity
- Improvement in the capital structure with improvement in the overall gearing to below 1x.
- Change in constitution of the entity

Downward Rating Factors

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

Key Rating Drivers along with Detailed Description

Key Rating Strengths

Experienced promoters and management

The firm 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. VAI is currently being managed by his son, Mr. Hardeep Singh Banga. The promoters are supported by a team of professionals who help in day to day management.

Established clientele and relationship

The firm over the years, has developed long lasting relationships with large OEM's and Tier I players (across India and abroad).This is a strength for the firm considering the B2B nature of the business and its diversified client base.

Wide market presence

The firm 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 derived about 74 per cent of its revenues from exports in FY19.

Strong growth and healthy profitability

The firm has achieved a healthy y-o-y growth of ~52% in FY19 as compared to FY18 driven by steady growth in its export sales attributable to addition of new geographies and customers coupled with increased order flow from existing customers. The operating profit margin of the firm continues to remain healthy and stood at 22.71% in FY19. The PAT margin also remained strong and improved from 15.91% in FY18 to 16.61% in FY19. With increase in profit margin the firm has also earned higher cash accruals of Rs.57.39 crore in FY19 as compared to Rs.36.35 crore in FY18. During H1FY20, the firm has achieved a total operating income of Rs.137.77 crore.

Key Rating Weaknesses

Exposure to volatility in raw material prices

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. The company can pass on the impact of raw material price changes to its clientele with a lag of a month, hence its margins still continue to be susceptible to volatility during the time in the shorter time frame.

Intense competition

The firm is primarily a machining 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.

Working capital intensive operation

The firm has elongated debtor days (over 115 days generally), due to better bargaining power of its clientele which are established OEM’s. However, the same is significantly mitigated due to availing of long credit period from its suppliers. Average working capital utilisation for the last 12 months ending at November, 2019 was high at ~94%.

Leveraged capital structure albeit satisfactory debt protection metrics

The capital structure of the firm continued to remain leveraged with the overall gearing and TOL/ANW at 2.67x and 4.16x as on March 31, 2019. During FY19, the company has availed long term debts to fund its capex implementation. However, despite its leveraged capital structure, the debt protection metrics marked by the interest coverage ratio and Total debt to GCA improved from 4.82x & 3.05x years respectively in FY18 and to 5.95x & 2.00x years respectively and continued to remain satisfactory in FY19.

Constitution as a partnership firm

Due to its constitution of being a partnership firm, the entity has the risk of withdrawal of partner’s capital.

Analytical Approach & Applicable Criteria

Standalone

Rating Methodology for Manufacturing companies

Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity: Adequate

The liquidity profile of VAI is expected to remain adequate marked by its expected satisfactory cash accruals of ~Rs.38 crore vis-a-vis its debt repayment obligations aggregating to ~Rs.10 crore in FY20. However, the average utilization of working capital limits of the company during the past twelve months ended November 2019 remained high at ~94% indicating a limited buffer.

About the Company

M/s Victora Automotive Inc. (VAI) is a partnership firm, which was originally incorporated in 1988and registered by the name Advantec. Its name was changed to Victora Automotive Inc. in 2007. The firm is engaged in the business of manufacturing of machining and stamping components for automobile companies in India and abroad. The product range of the firm includes machined automotive components and sheet metal components among others. The firm is a part of the Victora group having interests in the auto component and hospitality businesses. The firm has a manufacturing facility based out of Haridwar – Uttarakhand. Also, the firm has set up a tool room in Faridabad.

Financials (Standalone) **(Rs. crore)**

For the year ended / As On	31-03-2018 (Audited)	31-03-2019 (Audited)
Total Operating Income	193.09	294.29
EBITDA	44.10	66.82
PAT	30.94	49.19
Total Debt	110.71*	114.86*
Tangible Net worth	38.99	40.27
Adjusted Tangible Net worth (including subordinate debt)	38.84	43.08
EBITDA Margin (%)	22.84	22.71
PAT Margin (%)	15.91	16.61
Overall Gearing Ratio (x)	2.85	2.67

* Excluding subordinate debt

Status of non-cooperation with previous CRA: Not Applicable

Any other information: N.A

Rating History for last three years:

Sl. No.	Name of Instrument/Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crores)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Term Loan	Long term	32.8	IVR BBB/Stable Outlook	IVR BBB-/Stable Outlook (20 December, 2018)	--	--
2.	Cash credit	Long term	4.0	IVR BBB/Stable Outlook	IVR BBB-/Stable Outlook (20 December, 2018)	--	--
3.	Bill discounting	Short term	64.0	IVR A3+	IVR A3 (20 December, 2018)	--	--
4.	Packing credit	Short term	7.0	IVR A3+	IVR A3 (20 December, 2018)	--	--
5.	Non fund based facilities	Short term	10.0	IVR A3+	IVR A3 (20 December, 2018)	--	--

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. Company’s long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crores)	Rating Assigned/ Outlook
Long Term Debt-Term Loan	-	-	January 2024	32.8	IVR BBB/Stable Outlook
Long Term Fund Based Facilities-Cash Credit	-	-	-	4.0	IVR BBB/Stable Outlook
Short Term Fund Based Facilities-Bill Discounting	-	-	-	64.0	IVR A3+
Short Term Fund Based Facilities-Packing Credit	-	-	-	7.0	IVR A3+
Short Term Non-Fund Based Facilities- LC/BG	-	-	-	10.0	IVR A3+