Press Release

Vikram India Limited

January 31, 2018

Ratings

Instrument / Facility	Amount (Rs. crore)	Rating	Rating Action
Long-Term Debt- Term Loan	2.46	IVR BBB-/Stable Outlook (IVR Triple B Minus with Stable Outlook)	Assigned
Long Term Fund Based Facilities- Cash Credit	30.00	IVR BBB-/Stable Outlook (IVR Triple B Minus with Stable Outlook)	Assigned
Short Term Fund Based Facilities- PC/PCFC	11.00	IVR A3 (IVR A Three)	Assigned
Short Term Non Fund Based Facilities- Letter of Credit	17.00	IVR A3 (IVR A Three)	Assigned
Total	**60.46**		

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Vikam India Limited (VIL) derives comfort from its experienced promoters who demonstrated support through fund infusion (including unsecured loans backed by an undertaking given to its bankers that the same to the extent of Rs.40.25 crore shall be maintained in the business till FY20 and the same shall be withdrawn subject to the permission of the bank), its long track record of operation, reputed & diversified customer base, initiatives to diversify business in manufacturing of module mounting structures and string combiner boxes mainly used in the solar power industry. The ratings are further underpinned by its stable financial performance in FY17 (FY refers to the period April 01 to March 31) and 8MFY18 (refers to the period April 01 to November 30) with moderate capital structure and debt protection metrics. However, the ratings are constrained by its dependence on the Tea industry, exposure to foreign currency fluctuation risk and high working capital intensity. Maintaining growth with consequential improvement in profitability, gearing level and efficient management of working capital are the key rating sensitivities.

List of Key Rating Drivers

- Experienced promoters with long track record & demonstrated support.
- Reputed and diversified customer base.
- Initiative to diversify business.
- Stable financial performance with improving trend in the first 8 months of the current year (FY18).
- Moderate capital structure and debt protection metrics.
- Unsecured debt of Rs.40.25 crore shall be retained in the company till FY 2020 and subsequent withdrawal shall be subject to bank's permission.
- Dependence on the Tea industry.
- Exposure to foreign currency fluctuation risk.
- High working capital requirement.

Detailed Description of Key Rating Drivers

Experienced promoters with long track record & demonstrated support

VIL has commenced its operation from 1974 and accordingly has a long track of operations of about four and a half decade. The promoter, Shri Hari Krishna Chaudhary (Chairman of the Vikram group and Managing Director of VIL) has vast business experience of about five decades and is instrumental behind the growth of the Vikram group which started its operation through VIL. The promoters of the company support the business as per its requirements by infusing funds in the form of unsecured loans and have demonstrated support to the company. The promoters have infused equity amounting to Rs.5.0 crore in FY2017. Furthermore, as on March 31, 2017 the outstanding unsecured loan from the promoters stood at Rs.42.20 crore out of which Rs.40.25 crore is to be maintained in the business till FY20 as per the undertaking given by the company (the loans can only be withdrawn with the permission obtained from the bank).

Reputed and diversified customer base

VIL has wide market reach both in domestic and world market in its manufacturing of tea processing machinery segment. Over the years of its operations, VIL developed a broad export market spread across Sri Lanka, Bangladesh, Kenya, Uganda, Cameron, Rwanda, Japan etc. Its domestic market includes many reputed tea companies. Top ten customers of the company contribute ~40% of its total revenue in FY17. Further, VIL has established a strong relationship with its customers ensuring repeat orders and has developed a strong brand name "Vikram" for its tea processing machineries.

Initiative to diversify business

In order to reduce the dependence on the tea industry, VIL has initiated diversification through manufacturing of module mounting structures (MMS) from November, 2016, which is mainly used in the solar power industry. MMS contributed around 17% of revenues in FY17 for the company. Further, the company is also planning to start manufacturing of string combiner boxes, which are also used by the solar power sector. The recent diversification initiatives of VIL are likely to get support from Vikram Solar Private Limited, the flagship company of the Vikram group, in terms of orders and technical assistances.

Improvement in financial performance in FY17 and in 8MFY18

VIL has maintained a stable financial performance over the past years. VIL's total operating income has registered a healthy y-o-y growth of about 27% in FY17 mainly driven by addition of revenue from Module Mounting Structure division which commenced operations from November, 2016). However, despite the improvement in the total operating income, the EBIDTA margin remained stagnant at 8.08% in FY17 (as against 8.05% in FY16). However, the PAT margin of the company deteriorated from 3% in FY16 to 1.38% in FY17 mainly due to increase in depreciation expenses and decrease in non-operating income (in FY16, the company had a non-operating income of Rs.1.50 crore from sale of fixed assets). Decline in PAT resulted in decline in gross cash accruals from Rs.4.37 crore in FY16 to Rs.3.31 crore in FY17. In 8MFY18, VIL achieved a PAT of Rs.1.80 crore on total operating income of Rs.77.92 crore. The EBIDTA margin stood at 8.66% and the interest coverage ratio remained comfortable at 2.14x in 8MFY18. Furthermore, VIL has an order book of ~Rs.61 crore (around 0.58x of total operating income in FY17) as on January 17, 2018 which is to be completed with next four to five months indicating a stable near tem revenue visibility for the company.

Moderate capital structure and debt protection metrics

The promoters have infused equity amounting to Rs.5.0 crore in FY2017 to support the business and to fund the capex to set up the MMS and string combiner box manufacturing division during FY17. Furthermore, the debt profile of the company includes long term loans infused by the promoters aggregating to Rs.42.20 crore and out of which Rs.40.25 crore is to be maintained in the business till 2019-20 as per an undertaking given by the company. Considering the said Rs.40.25 crore as neither equity nor debt, the capital structure of the company remained moderate with the long term debt equity ratio at 0.21x and the overall gearing ratio at 0.87x as on March 31, 2017. Moreover, the debt protection metrics of the company also stood moderate marked by the interest coverage ratio at 1.68x in FY17 and Total debt to GCA (Considering the said Rs.40.25 crore as neither equity nor debt) at 7.52 as on March 31, 2017.

Dependence on the Tea industry

Tea processing machinery segment contributes around 82% of total sales of the company in FY17 indicating a major dependence of the company on the Tea industry. Tea industry globally is an agro-based non-conventional industrial sector and highly susceptible to vagaries of nature. Furthermore, being a labour-intensive industry it is also susceptible to labour related problems. High dependence on the Tea industry restricts the business risk profile of the company to an extent and any negative bearing on the tea industry can hinder its growth. However, recent diversification in the manufacturing of MMS and string combiner box is expected to auger well for the company.

Exposure to foreign currency fluctuation risk

The company derived around 29% of its revenue in FY17 (~42% in 8MFY18) from exports. Being an exporter, the company is moderately exposed to foreign currency fluctuation risks. However, to mitigate the risk VIL uses forward contracts, foreign bill discounting and PCFC limits. In FY17, VIL has suffered a loss of Rs.0.22 crore on account of foreign exchange fluctuations.

High working capital requirement

VIL has long processing time of about three and half months for its manufacturing operations. Furthermore, commissioning of turnkey projects also takes about 3-4 months. To support its manufacturing operations and commissioning of turnkey projects the company has to hold adequate inventory of raw materials. Long processing time and high inventory holding increases the working capital intensity for the business. Moreover, the average collection period for the company also remained around 60-75 days which further aggravated the working capital requirements. However, based on its established presence, VIL enjoys an elongated credit period of about 3-4 months from its suppliers which supports it working capital requirements to a large extent. Further, it also receives advances from its customers. The average utilisation of fund-based working capital bank limits was high at ~91% for 12 months ended November 2017.

Analytical Approach & **Applicable Criteria:**

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

About the Company

Incorporated in 1974, Vikram India Limited (VIL, erstwhile Vikram Forging and Allied Industries Limited) in engaged in manufacturing of tea processing machinery from plucking to packing under the brand name "Vikram" and also engaged in execution of turnkey projects in the tea industry. The company also provides sales and services through its domestic offices in Kolkata, Siliguri, Tinsukia, Coonor and overseas offices in Colombo (Sri Lanka), Dhaka (Bangladesh), Nairobi (Kenya) as well as through marketing agents in all the tea producing areas of the world. It also provides customized project consultancy services and training packages to its clients. The manufacturing facilities of the company are located at Dhulagarh and Ghusuri of Howrah district in West Bengal. In order to diversify its operations, VIL has started manufacturing of module mounting structures (MMS) from November, 2016, which is mainly used in the solar power industry. Furthermore, the company is also planning to start manufacturing of string combiner boxes which are also used by the solar power sector. VIL is a part of Kolkata based, Vikram Group promoted and headed by Shri Hari Krishna Chaudhary (Chairman and MD). The Vikram group started its operation through VIL and has diversified presence in the industries like, textiles, renewable energy (Solar), education, etc. through its various companies. Vikram Solar Private Limited (VSPL) is the flagship company of the group engaged in manufacturing of solar photo voltaic (PV) modules and Engineering, Procurement and Construction (EPC) business for setting up solar power plants (like off-grid system, roof-top applications) - installation of modules and other auxiliary equipment's for power storage and evacuation. The new business areas of VIL are also likely to derive support from VSPL and strengthen the business risk profile of the company.

Financials (Standalone)

(Rs. Crores)

For the year ended* / As On	31-03-2016	31-03-2017
	Audited	Audited
Total Operating Income	84.16	106.92
EBITDA	6.78	8.64
PAT	2.64	1.48
Total Debt	55.20	24.87
Tangible Net worth	22.18	28.72
EBITDA Margin (%)	8.05	8.08
PAT Margin (%)	3.00	1.38
Overall Gearing Ratio (x)	2.49	0.87

*Classification of financial numbers as per Infomerics' standards

Status of non-cooperation with previous CRA: SMERA has flagged its rating to 'Issuer not co-operating' vide press release dated October 09, 2017 on account of failure of the borrower to submit information as required by SMERA.

Any other information: Nil

Rating History for last three years:

S. No.	Name of Instrument/Facilities	Current Rating (Year 2017-18)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2016-17	Date(s) & Rating(s) assigned in 2015-16	Date(s) & Rating(s) assigned in 2014-15
1.	Long Term Debt-Term Loan	Long Term	2.46	IVR BBB -/Stable Outlook (IVR Triple B Minus with Stable Outlook)	--	--	--

S. No.	Name of Instrument/Facilities	Current Rating (Year 2017-18)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2016-17	Date(s) & Rating(s) assigned in 2015-16	Date(s) & Rating(s) assigned in 2014-15
2.	Long Term Fund Based Limits- Cash Credit	Long Term	30.00	IVR BBB- /Stable Outlook (IVR Triple B Minus with Stable Outlook)			
3.	Short Term Fund Based Facilities- PC/PCFC	Short Term	11.00	IVR A3 (IVR A Three)	--	--	--
3.	Short Term Non Fund Based Limits- Letter of Credit	Short Term	17.00	IVR A3 (IVR A Three)			

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.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Debt-Term Loan	Present Outstanding	Varied	May, 2019	2.46	IVR BBB-/Stable Outlook (IVR Triple B Minus with Stable Outlook)
Long Term Fund Based Limits- Cash Credit	-	-	-	30.00	IVR BBB-/Stable Outlook (IVR Triple B Minus with Stable Outlook)
Short Term Fund Based Facilities- PC/PCFC	--	--	--	11.00	IVR A3 (IVR A Three)
Short Term Non Fund Based Limits- Letter of Credit	--	--	--	17.00	IVR A3 (IVR A Three)