

## VEM Technologies Private Limited

February 20, 2023

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	84.56 (Reduced from 102.36)	CARE BBB-; Stable	Reaffirmed
Long Term / Short Term Bank Facilities	116.00 (Enhanced from 115.00)	CARE BBB-; Stable / CARE A3	Reaffirmed
Short Term Bank Facilities	2.35 (Reduced from 2.38)	CARE A3	Reaffirmed

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

The reaffirmation in the ratings assigned to the bank facilities of VEM Technologies Private Limited (VEM) continues to derive strength from experienced, resourceful promoters and a well-qualified R&D team, reputed customer base and global supply partnership with foreign OEMs, strong orderbook position and favourable industry prospects. The ratings strengths are however partially offset by elongated operating cycle resulting in high dependence on working capital borrowings, sluggish performance for 9MFY23, proposed large sized capex, highly regulated and tender based nature of business.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors

- Increase in scale of operations with total operating income (TOI) improving to Rs.350 crore and above while maintaining profit before interest depreciation and tax (PBIDT) margin 30% on a sustained basis.
- Improvement in liquidity position with average working capital utilization levels falling below 80% and operating cycle shortening to less than 150 days on a sustained basis.

#### Negative factors

- Significant decline in the TOI or PBIDT by more than 30% y-o-y
- PBIDT margin falling below 20%, going forward,
- Overall gearing deteriorating to more than 1.2x, in future.

**Analytical approach:** Standalone

### Key strengths

**Experienced, resourceful promoters and a well-qualified R&D team:** Mr. V. Venkata Raju is the Chairman and Managing Director of the company and has over three decades of experience in the design, development, and manufacturing of systems for Aerospace and Defence applications. He is assisted by a team of professionals who have rich experience in the field of Aerospace & Defence industries. Mr. CG Balaji Singh (ex. DRDO Scientist) is the head of VEM's design and engineering team who has over 40 years of experience in Aerospace & Defence systems.

**Reputed customer base and global supply partnership with foreign OEMs:** VEM is associated as a supply chain partner for global giants such as Raytheon & BAE from USA, Safran from Europe and IAI from Israel. Being a global supply partner, company has been associated with these global leaders for over a decade and has received several orders over the years. By virtue of its long-standing relations, VEM receives regular orders from these foreign companies which translates to improved revenue and profitability. VEM has been expanding its reach in the international market by regularly investing in R&D towards new products and technologies.

**Strong orderbook position:** VEM has an outstanding order book of Rs. 1,295.97 crore as on February 09, 2023 (Rs. 720.79 crore as on September 30, 2021). The said order book provides visibility for medium-term. The company is expected to execute the orders in hand within next two to three years. Majority of orders in hand are from reputed clients such as HAL, Brahmos, BAE, Indian Army, and Bharat Dynamics Limited (BDL). Other clients of company include Raytheon, Defence Research and Development Organization (DRDO), Indian Navy and ISRO.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

**Comfortable financial risk profile with satisfactory coverage indicators:** The debt profile of the company consists of term loans (20.74%), working capital borrowings (43.25%), and unsecured loans from directors and related parties (36.00%). Capital structure as represented by overall gearing remains comfortable and below unity. Overall gearing marginally improved to 0.82x as on March 31, 2022, from 0.89x as on March 31, 2021. The debt coverage indicators represented by interest coverage ratio also remained comfortable at 3.52x in FY22 having improved from 2.04x during FY21. Also, TDGCA improved from 8.86x in FY21 to 4.31x in FY22.

**Favourable industry prospects:** The outlook for aerospace and defence industry remains stable due to the rising commercial aircraft deliveries and higher defence spending. The defence budget had been increased to Rs. 5.25 lakh crore for 2022-23 as against last year's allocation of Rs. 4.78 lakh crore. The capital allocations pertaining to modernisation and infrastructure development of Armed Forces has been increased to Rs. 1.52 lakh crore from Rs. 1.35 crore budgeted for FY22. Capital allocations is primarily aimed at expenditures that include purchasing new weapons, aircraft, warships, and other military hardware. To give push to domestic enterprises under the 'Aatmanirbhar Bharat', the share of domestic capital procurement, which was earmarked at 64% in FY22, has been enhanced to 68% of the Capital Acquisition Budget of the Defence Services (Rs 1.24 lakh crore) for the FY 2022-23, which would be Rs. 0.85 lakh crore.

### Key weaknesses

**Moderated performance for 9MFY23 after significant growth in FY22:** For 9MFY23 the company has achieved TOI of Rs. 94.48 crore. Lower TOI for 9MFY23 is because of supply chain issues triggered to Russia Ukraine war. There has been delay in receipt of components needed for testing products that are in progress. Such delay has resulted in rise in inventory levels. During FY22, the company achieved TOI of Rs. 204.15 crore against Rs. 124.63 crore in FY21 denoting as significant growth of ~64%. Rise in TOI was because of improvement in both domestic and export orders under defence segment. Major domestic contributors in this segment were BDL, Brahmos and RCI-DRDO while foreign customers included BAE Systems and Raytheon. The PBILDT margin of the company has improved from 22.78% in FY21 to 30.20% in FY22 because of rise in share of high value-added components delivered. The PAT margin of the company also improved from 1.67% in FY21 to 11.30% in FY22 on back of rise in revenue and PBILDT.

**Elongated operating cycle:** The company operates in a working capital-intensive industry especially with high inventory requirements. The company procures all its raw material in bulk for the purpose of manufacturing a component because various RM cannot be procured in batches. Also, the company needs to regularly undergo research and development which involves high material requirements. For FY22 the company has invested Rs. 4.95 crore for R&D. Nevertheless, the company does not normally hold much of finished inventory and most of the inventory of the company is in the form of WIP or RM.

**Proposed large sized capex:** The company has received fresh allocation of land admeasuring 511 acres in Zaheerabad. The company plans to set up an Aeropark with an estimated outlay of Rs. 425 crore against which cost for land has already been paid while the company has received in principle approval from lenders for debt. The company also envisages external funding arrangements for the project. The integrated defence system will have full-fledged facilities for integration and manufacturing of aerostructures, missiles, naval system, UAS, radars, aeroengines, hot and cold integration among others. The company expects the development of the facility to begin by early next fiscal. The project has been accorded a mega project status by the Government of Telangana and will be eligible for multiple incentives. The project is at nascent stage and the company will undertake the same depending on Govt.'s clearances and demand outlook. The company has sufficient capacity to execute order in hand independently of capex projected.

**Highly regulated and tender based nature of business:** VEM operates in a highly regulated industry with its clientele primarily comprising defence and government organisations. Furthermore, the orders are tender-based, and revenue of the company is dependent on its ability to bid successfully for these tenders. Thus, the revenue profile of the company remains fluctuating depending upon the orders bagged. Nevertheless, with promoters long standing experience, healthy orderbook in hand along with favourable industry outlook, the company's prospects in near to medium term are likely to remain buoyant.

### Liquidity: Adequate

The liquidity position of the company is adequate as the company has been generating sufficient cash accruals to meet its repayment obligations. The liquidity is supported by above unity current ratio, positive cash flows from operations and free cash balance of about Rs 6.45 crore as on March 31, 2022, and Rs. 1.76 crore on December 31, 2022. Although, the working capital limits remain almost fully utilised. Though company is looking at capex in Aeropark Project, large outgo of cash is not envisaged in near term as the Aeropark project is at a nascent stage. The promoters have been infusing funds in the form of share capital and unsecured loans to support the business operations of the company.

## Applicable criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Manufacturing Companies](#)

[Policy on Withdrawal of Ratings](#)

## About the company and industry

### Industry Classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Industrials	Capital Goods	Electrical Equipment	Other Electrical Equipment

The company was promoted by Mr. Venkata Raju in the year 1988 as VEM Components. It was registered as Private Limited Company in the year 1993 and renamed as VEM Technologies Private Limited (VEM). VEM is engaged in manufacturing of various on-board systems for Defence and Aerospace applications including Missiles, Bombs, Rockets, Aircrafts, Helicopters and UAVs. The company manufactures entire systems for missiles including seekers, on-board computers, servo systems, rocket motor casings, thrust vector control systems, electro-optical systems, RF & MW systems etc.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	9MFY23 (UA)
Total operating income	124.63	204.15	94.48
PBILDT	28.38	61.66	18.23
PAT	2.08	23.08	0.23
Overall gearing (times)	0.89	0.82	NA
Interest coverage (times)	2.04	3.52	NA

A: Audited, UA: Unaudited, NA: Not available

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for the last three years:** Please refer Annexure-2

**Covenants of the rated instruments/facilities:** Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

**Complexity level of the various instruments rated:** Annexure-4

**Lender details:** Annexure-5

**Annexure-1: Details of instruments/facilities**

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	50.00	CARE BBB-; Stable
Fund-based - LT-Cash Credit		-	-	-	10.00	CARE BBB-; Stable
Fund-based - LT-Term Loan		-	-	31-03-2027	24.56	CARE BBB-; Stable
Non-fund-based - LT/ST-BG/LC		-	-	-	116.00	CARE BBB-; Stable / CARE A3
Non-fund-based - ST-Credit Exposure Limit		-	-	-	1.35	CARE A3
Non-fund-based - ST-Loan Equivalent Risk		-	-	-	1.00	CARE A3

**Annexure-2: Rating history for the last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	24.56	CARE BBB-; Stable	-	1)CARE BBB-; Stable (07-Dec-21) 2)CARE BBB-; Stable (27-May-21)	1)CARE BB; Stable; ISSUER NOT COOPERATING* (19-Feb-21)	1)CARE BBB-; Stable (02-Jan-20)
2	Fund-based - LT-Cash Credit	LT	50.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (07-Dec-21) 2)CARE BBB-; Stable (27-May-21)	1)CARE BB; Stable; ISSUER NOT COOPERATING* (19-Feb-21)	1)CARE BBB-; Stable (02-Jan-20)
3	Non-fund-based - LT/ ST-BG/LC	LT/ST*	116.00	CARE BBB-; Stable / CARE A3	-	1)CARE BBB-; Stable / CARE A3 (07-Dec-21)	1)CARE BB; Stable / CARE A4; ISSUER NOT COOPERATING* (19-Feb-21)	1)CARE BBB-; Stable / CARE A3 (02-Jan-20)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
						2)CARE BBB-; Stable / CARE A3 (27-May-21)		
4	Fund-based - LT-Cash Credit	LT	10.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (07-Dec-21) 2)CARE BBB-; Stable (27-May-21)	1)CARE A4; ISSUER NOT COOPERATING* (19-Feb-21)	1)CARE A3 (02-Jan-20)
5	Non-fund-based - ST-Loan Equivalent Risk	ST	1.00	CARE A3	-	1)CARE A3 (07-Dec-21) 2)CARE A3 (27-May-21)	1)CARE A4; ISSUER NOT COOPERATING* (19-Feb-21)	1)CARE A3 (02-Jan-20)
6	Non-fund-based - ST-Credit Exposure Limit	ST	1.35	CARE A3	-	1)CARE A3 (07-Dec-21) 2)CARE A3 (27-May-21)	1)CARE A4; ISSUER NOT COOPERATING* (19-Feb-21)	1)CARE A3 (02-Jan-20)

\*Long term/Short term.

**Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities:** Not applicable

**Annexure-4: Complexity level of the various instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - LT/ ST-BG/LC	Simple
4	Non-fund-based - ST-Credit Exposure Limit	Simple
5	Non-fund-based - ST-Loan Equivalent Risk	Simple

**Annexure-5: Lender details**

To view the lender wise details of bank facilities please [click here](#)

**Note on the complexity levels of the rated instruments:** CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careedge.in](mailto:care@careedge.in) for any clarifications.

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