Veljan Denison Limited

July 03, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	20.00	CARE BBB+; Stable	Assigned
Long-term / short-term bank facilities	3.00	CARE BBB+; Stable / CARE A2	Assigned
Short-term bank facilities	10.00	CARE A2	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to bank facilities of Veljan Denison Limited (VDL) derives strength from its experienced promoters with a long track record of operations, improving trend of total operating income (TOI) in the last four years ended FY24 (Provisional, FY refers to April 01 to March 31), diverse and established relationship with customers, comfortable capital structure and healthy debt coverage indicators, strategic acquisition of Adan Holding Limited (AHL) which is expected to result in improvement in scale of operations and stable industry outlook.

However, the rating is tempered by moderate scale of operations albeit improvement, fluctuating profitability margins over the years, highly competitive industry with established players holding majority market share, susceptibility to raw material price volatility, working capital intensive operations resulting in elongated operating cycle.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improving scale of operations above ₹250 crores while PBILDT margin of around 20% to 22% on a sustained basis.

Negative factors

- Any un-envisaged debt programme leading to deterioration in the capital structure, particularly with overall gearing of the company over 0.75x on a sustained basis.
- Sustained elongation in operating cycle beyond 250 days.

Analytical approach: Consolidated. CARE Ratings, in its analysis, has considered consolidated financials of VDL and its subsidiary Adan Holdings Limited (AHL) as VDL holds 100% stake in AHL and both the companies are engaged in similar line of business. Refer Annexure-6.

Outlook: Stable

The 'Stable' outlook on the ratings of VDL reflects CARE Ratings Limited's (CARE Ratings) expectation to sustain its stable financial risk profile given the stable demand from the hydraulic equipment sector and extensive experience of promoters with a long track record of operations.

Detailed description of the key rating drivers:

Key strengths

Experienced promoters with a long track record of operations: VDL has more than five decades of experience in manufacturing hydraulic components. The promoter of the company Mr. V. C Janardan Rao (Chairman and MD) is a qualified and experience engineer who has led the company successfully throughout the years and is responsible for development of many products. The operations of the company are managed by ED & CEO, Mr Sri Krishna Uppaluri, who has 7+ years of experience across fields of management, data analytics and hydraulic engineering. The promoters are assisted by a qualified team of professionals who take care of the day-to-day operations of the company.

Improving trend of total operating income (TOI) over last four years ended FY24: The total operating income of the company has witnessed increase over last four years ended FY24. In the last four years the company has reported a CAGR of 16.96%. In FY23, on a consolidated basis the company generated a revenue of ₹120.58 crore. In FY24, the company generated TOI of ₹137.69 crore translating to a 14% growth as compared to FY23. The total operating income of the company on a standalone basis witnessed a growth of ~13% to ₹110.6 crore as compared to ₹97.85 crore in FY23. The scale of operations of the company has been consistently improving backed by higher demands for hydraulic equipment, however, the scale remains moderate even after operating for more than five decades in this sector.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Diverse customer base and established relationship with the customers: VDL has a diverse group of customers limiting its over reliance on any single customer. VDL also acters to orders received from its group company Veljan Hydrair Limited (VHL). VHL further sells these products to different companies domestically and internationally. The top 10 customers for VDL in FY23 and FY24 remained same with few new name additions in FY24, indicating presence of repeat orders from these companies. This indicates that over the years VDL has established itself as a reliable partner for its customers.

Comfortable capital structure and healthy debt coverage indicators: The capital structure of the company consists of only working capital borrowings. The overall gearing ratio of the company stood below unity at 0.03x as on March 31, 2024 (PY: 0.05X) on account of a lower debt as compared to a high net worth of ₹201.63 crore as on March 31, 2024. The interest coverage ratio remains high at 32.54 in FY24. The other debt coverage indicators marked by total debt to gross cash accruals (GCA) remains low at 0.25x as on March 31, 2024.

Strategic acquisition of Adan Holding Limited: In August 2022, VDL acquired Adan Holding Limited by investing ₹13.90 crore for 100% stake in the company. Adan Limited was established in 1968 and has been manufacturing hydraulic equipment for 50 years. It was based in Staines, Middlesex but relocated to Boston, Lincolnshire in 1983 and has been at the Riverside Industrial Estate ever since. The company supplies hydraulic equipment to a broad business base covering agricultural, civil engineering, marine, mining petrochemical and machine tool industries.

Stable industry outlook: The Hydraulic Equipment Market size is estimated at US$45.16 billion in 2023 and is expected to reach US$54.71 billion by 2028, registering a CAGR of 3.62% during the forecast period (2023-2028).The expanding construction industry is anticipated to augment the hydraulic equipment market need over the forecast period. For instance, according to the Ministry of Statistics & Programme Implementation (MOSPI), India's construction industry was valued at over ₹3 trillion (US$ 36.70 billion) in Q4 of 2022, a significant increase compared to 2020, when the value shrank due to the coronavirus (COVID-19) pandemic. Also, the country's construction & manufacturing industries were among the worst hit then. However, the industry recovered quickly and returned to pre-crisis level again. A similar trend has been observed across other major end-user industries of hydraulic equipment. Hence, recovery of these industries will create opportunities in the studied market.

Key weaknesses

Fluctuating profitability margins over the years: In FY23, the PBILDT margin of VDL deteriorated by 491 bps to 21.33% as compared to 26.24% in FY22. The PAT margin of the company deteriorated by 396 bps to 13.29% in FY23 as compared to 17.25% in FY22. However, in FY24, PBILDT margin improved to 24.29%, and PAT margin improved to 16.03%. The margin has been fluctuating on account of volatility in raw material prices. In FY23 the PBILDT margin of VDL on a standalone basis deteriorated by 512 bps to 21.12% as compared to 26.24% in FY22. The PAT margin of VDL on a standalone basis in FY23 deteriorated to 13.18% (PY:17.25%). The ROCE of the company has improved to 14.64% in FY24 as against 11.70% in FY23.

Highly competitive industry with established players holding majority of the market share: The hydraulic equipment manufacturing landscape in India is highly competitive with a mix of established global players and growing domestic companies. International corporation like Bosch Rexroth AG, Danfoss and Kawasaki Heavy Industries hold majority of the market share due to their brand recognition and advance technologies.

Susceptibility to volatility in raw material prices: The four major raw materials used by VDL for the manufacturing process are steels, castings, components, and imported materials. In FY23, components formed 48% of total raw material consumption. Out of the total raw material consumption castings forms 34%, steel forms 12% and imported material forms 6% of total raw material consumption. Similar trend can be observed in the previous years also. However, it can be observed that the raw material consumption is gradually increasing backed by the increase in production. The company keeps an inventory of major raw materials like steel and casting owing to the longer procurement time which makes the company vulnerable to price fluctuations in raw materials.

Working capital intensive nature of operations resulting in elongated operating cycle: The operations of VDL are working capital-intensive with a considerable amount of funds blocked in inventory. The company maintains an inventory level of 4-6 months according to market demand. The average inventory period has increased to 211 days in FY24 (vis-à-vis 193 days in FY23). The average collection period stood at 81 days in FY24 (vis-à-vis 95 days in FY23) and the suppliers are extending a credit period of 61 days to the company, (vis-à-vis 67 days in FY23). The operating cycle of the company has increased to 231 days in FY24 as compared to 222 days in FY23. The operating cycle stood increased to 231 days for FY24 as against 222 days in FY23.

Liquidity: Strong

Liquidity is marked by strong gross cash accruals of ₹27.98 crore in FY24 against nil repayment obligations and liquid investments to the tune of ₹38.87 crore as on March 31, 2024. With an overall gearing of 0.03 times as of March 31, 2024, the company has sufficient gearing headroom, to raise additional debt for its capex. The liquidity is further supported by a current ratio of 4.95 as on March 31, 2024. Its unutilized bank lines are more than adequate to meet its incremental working capital needs over the next one year.

Assumptions/Covenants: Not Applicable

Environment, social, and governance (ESG) risks

Leaks in hydraulic systems can lead to fluid contamination and spillage, which can have negative environmental consequences. VDL has taken proper measures to dispose hazardous waste materials. The company is taking proper safety measures to ensure that there is no gap in safety practices. VDL carries out regular maintenance and inspection to ensure they are functioning properly and safely. VDL has been operating for more than five decades and the promoters are in this line of business since the beginning. The management team is well qualified with no major corporate governance issues.

Applicable criteria

Consolidation
Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Short Term Instruments

About the company and industry

Industry classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Industrials	Capital Goods	Industrial Products	Compressors, Pumps & Diesel Engines

Veljan Denison Limited (VDL) was incorporated on 19th December 1973 and commenced its commercial production in 1977 as a joint venture with the Denison Hydraulics division of Abex Corporation of USA. It manufactures precision hydraulic components and systems. The company's manufacturing units are located primarily in Patancheru, Hyderabad, India. It manufactures hydraulic vane pumps, motors, valves and power pack systems. The promoter of the company is Mr. Janardan Rao Chandrasekhara Velamati (MD & Chairman) who is a qualified engineer. The operations of the company are managed by ED & CEO, Mr Sri Krishna Uppaluri, who has 7+ years of experience across fields of management, data analytics and hydraulic engineering. He has specialized experience in fluid power, having managed VDL operations since 2020. The company is listed on the Bombay Stock Exchange.

Brief Financials (₹ crore) - Consolidated	March 31, 2022 (A)	March 31, 2023 (A)	March 31, 2024 (Ab)
Total operating income	97.85	120.58	137.69
PBILDT	25.67	25.72	33.45
PAT	16.88	16.02	22.07
Overall gearing (times)	0.04	0.05	0.03
Interest coverage (times)	111.38	32.83	32.54

A: Audited; Ab: Abridged; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for last three years: Annexure-2

Covenants of rated instrument / facility: Annexure-3

Complexity level of 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		-	-	-	20.00	CARE BBB+; Stable
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	3.00	CARE BBB+; Stable / CARE A2
Non-fund-based - ST-Letter of credit		-	-	-	10.00	CARE A2

Annexure-2: Rating history for 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 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT-Cash Credit	LT	20.00	CARE BBB+; Stable				
2	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST	3.00	CARE BBB+; Stable / CARE A2				
3	Non-fund-based - ST-Letter of credit	ST	10.00	CARE A2				

LT: Long term; ST: Short term; LT/ST: Long term/Short term

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

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - LT/ ST-Bank Guarantee	Simple
3	Non-fund-based - ST-Letter of credit	Simple

Annexure-5: Lender details

To view lender-wise details of bank facilities please click here

Annexure-6: List of entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Adan Holdings Limited	Full	VDL owns 100% stake in the company and is engaged in the similar line of business.

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 for any clarifications.

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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