

**Veejay Lakshmi Engineering Works Limited**

May 08, 2020

**Ratings**

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term Bank Facilities	33.50	<b>CARE BB-; Stable</b> <b>(Double B minus, Outlook: Stable)</b>	<b>Assigned</b>
Short-term bank Facilities	6.50	<b>CARE A4</b> <b>(A Four)</b>	<b>Assigned</b>
<b>Total Facilities</b>	<b>40.00</b> <b>(Rupees Forty Crore only)</b>		

*Details of instruments/facilities in Annexure-1*
**Detailed Rationale & Key Rating Drivers**

The ratings assigned to the bank facilities of Veejay Lakshmi Engineering Works Limited are constrained by modest and declining scale of operations, fluctuating profitability margins to volatility in the raw material prices along with risk of foreign currency price fluctuations, weak debt coverage indicators, elongated operating cycle during the review period, and highly competitive business segment due to presence of numerous organized and unorganized players

The ratings, however, derive strength from experienced promoters with 4 decades long experience in textile industry, comfortable capital structure and availability of captive power generated from wind mills

**Rating Sensitivities**
**Positive factors:**

- Increase in total operating income beyond Rs.100 crore on a sustainable bases
- Improvement in profitability margins marked by PBILDT margin by 200 bps
- Improvement in debt coverage indicators as marked by interest coverage and TDGCA ratios over 5x and below 4x, respectively

**Negative factors:**

- Deterioration in overall gearing ratio to 2x.
- Deterioration in debt coverage indicators as marked by interest coverage and TDGCA ratios below 1.50x and above 10.00x, respectively

**Detailed description of the key rating drivers**
**Key Rating Weaknesses**
**Modest and declining scale of operations**

The scale of operations marked by total operating income stood modest although declining year on year resulting from decreased demand for engineering products due to the entry of new manufacturers. The total operating income stood at Rs.80.93 crores in FY19 as against Rs. 81.51 crores in FY18 and Rs.88.42 crores in FY17.

**Fluctuating profitability margins to volatility in the raw material prices along with risk of foreign currency price fluctuations**

The PBILDT and PAT margins are fluctuating during the review period. The PBILDT margin stood at 5.31% in FY19 as a result of the purchase of cotton at low prices during the season that has improved the margins and profits as compared to the previous year.

The company exports 40% of the end products to foreign countries. To overcome the risk, the company enters into forward contract. During FY19, the company has made a forex gain of Rs.0.24 crore as against gain of Rs.0.04 crore in FY18

**Weak debt coverage indicators**

The debt coverage indicators, although improved, continued to remain weak with PBILDT Interest coverage, TD/GCA and TD/CFO standing at 3.36x, 6.15x and 2.50x, respectively, in FY19 as against negative in FY18. TD/CFO also stood positive resulting from positive working capital changes in FY19. The company had a turnaround from losses, in FY19, on account of reduction in the manufacturing expenses like fabrication charges, repairs and maintenance etc.

**Elongated operating cycle during the review period**

The operating cycle stood elongated at 152 days in FY19 as against 136 days in FY18 and 96 days in FY17. This was mainly due to the increase in the inventory holding period as cotton is a seasonal crop and the manufacturers stock the same during summer season. The company generally sells the products after receiving full advance and rarely allows credit to the customers.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

The company enjoys a credit period of 30 days from its supplier. The average utilization of working capital facility stood at ~75% for the last 12 months ending February 2020.

**Highly competitive business segment due to presence of numerous organised and unorganised players**

The spectrum of the textile industry in which the company operates is highly fragmented and competitive marked by the presence of numerous players in India. VLEWL faces direct competition from various organized and unorganized players in the market. There are a number of small and regional players who are located in India and catering to the same market.

**Key Rating Strengths**

**Experienced promoters with four decades long experience in textile industry**

The company was incorporated in 1974 and the Directors Mr.J. Anand and Mr. D. Ranganathan have over four decades of experience in textile and engineering industry. This enables the company to develop a wide network of customers.

**Comfortable capital structure**

The capital structure of the company stood comfortable at 0.45x as on March 31, 2019 as against 0.73x as on March 31, 2018 on back of a decrease in total debt resulting from reduced working capital bank borrowing during FY19 along with the accretion of the profits to the reserves of the company.

**Availability of captive power generated from wind mills**

The power scenario relatively improved in Tamil Nadu but there is volatility in the price per unit of electricity. The need to generate and utilize wind-power energy for the textile units, VLEWL has invested in 9 wind-mills in Tamil Nadu which helps reduce its power costs to the extent of 10-20% each year since the inception of operating the windmill in 2005.

**Liquidity analysis:** Adequate

Adequate liquidity characterized by sufficient cushion in accruals vis-à-vis repayment obligations and moderate cash balance of Rs.0.22 Crore. Its bank limits are utilized to the extent of 80% and supported by above unity current ratio of 1.48x as on March 31, 2019 on account of higher trade receivable and inventory as against trade payables and working capital bank borrowings.

**Analytical approach:** Standalone

**Applicable Criteria**

[CARE's Policy on Default Recognition](#)

[Criteria on assigning 'Outlook' to Credit Ratings](#)

[Financial ratios-Non-financial sector](#)

[Rating Methodology-Manufacturing Companies](#)

[Criteria for short Term Instruments](#)

**About the Company**

Coimbatore (Tamilnadu) based, Veejay Lakshmi Engineering Works Limited was incorporated as a public limited company in 1984 by Mr. V. J. Jayaraman, the chairman, Mr. J. Anand, the managing director and Mr. D. Ranganathan, the whole time director. The company is engaged in the business of manufacturing of two for one twistors used in spinning mills. The company also has a textile unit in which it manufactures cotton yarn and knitted fabrics. The company purchases the raw materials locally and exports the products to Bangladesh, Nepal, China, Korea. It has an installed capacity of 150 units per annum to produce the two for one twistors and 18,000 units to produce cotton yarn and knitted fabrics.

Brief Financials (Rs. crore)	31-03-2018	31-03-2019
	A	A
Total operating income	81.51	80.93
PBILDT	-3.03	4.30
PAT	-5.45	-0.20
Overall gearing (times)	0.73	0.45
Interest coverage (times)	-2.48	3.36

A: Audited

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

**Any other information:** Not applicable

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

**Annexure-1: Details of Instruments/Facilities**

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Proposed fund based limits	-	-	-	29.50	CARE BB-; Stable
Fund-based - LT-Cash Credit	-	-	-	4.00	CARE BB-; Stable
Non-fund-based - ST-BG/LC	-	-	-	6.00	CARE A4
Non-fund-based - ST-Forward Contract	-	-	-	0.50	CARE A4

#### Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Proposed fund based limits	LT	29.50	CARE BB-; Stable	-	-	-	-
2.	Fund-based - LT-Cash Credit	LT	4.00	CARE BB-; Stable	-	-	-	-
3.	Non-fund-based - ST-BG/LC	ST	6.00	CARE A4	-	-	-	-
4.	Non-fund-based - ST-Forward Contract	ST	0.50	CARE A4	-	-	-	-

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

## Contact us

### Media Contact

Mradul Mishra  
 Contact no. – +91-22-6837 4424  
 Email ID – [mradul.mishra@careratings.com](mailto:mradul.mishra@careratings.com)

### Analyst Contact

Group Head Name – Ms. Kalpana Chaudhary  
 Group Head Contact no.- 080 – 4662 5555  
 Group Head Email ID- [kalpana.choudhary@careratings.com](mailto:kalpana.choudhary@careratings.com)

### Business Development Contact

Name: Mr. Nitin Dalmia  
 Contact no.: 080 – 4662 5555  
 Email ID: [nitin.dalmia@careratings.com](mailto:nitin.dalmia@careratings.com)

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