June 30, 2023

Vankon Modular Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term fund-based cash credit	10.00	10.00	[ICRA]BB+ (Stable); reaffirmed
Total	**10.00**	**10.00**	

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation of the rating favourably factors in the financial and operational benefits that Vankon Modular Private Limited (VMPL) derives from its parent - Veto Switchgears and Cables Limited (VSCL, rated [ICRA] BBB+ (Stable)/[ICRA] A2) - and a wide network of dealers and distributors that ensures efficient sales and distribution. As a subsidiary of VSCL, the company derives operational synergies in terms of a common management, better pricing on raw material procurement, better realisation for its sales and access to advances from the parent and Group companies.

ICRA notes that VMPL's high debt level outstanding as on March 31, 2023[P] has resulted in moderate coverage and debt protection metrics indicators. However, a comfortable capital structure at the consolidated level with healthy net worth and limited reliance on external debt provides comfort to some extent.

The rating is, however, constrained by the company's moderate scale and its working capital-intensive operations on account of the high inventory and receivable position. The company's profit margin profile is also exposed to the volatility in the prices of key raw materials, including copper. Any significant scale up of the business operations may result in an incremental requirement of external debt in the form of working capital borrowings or unsecured loans, adversely impacting its financial profile and further moderating the debt protection metrics. The rating also factors in the company's exposure to intense competition from both organised and unorganised players in the wires and cables business, which leads to pricing pressure for all industry participants, including VMPL.

The Stable outlook on the [ICRA]BB+ rating reflects ICRA's opinion that VMPL's operations, sales turnover and profitability would remain stable by virtue of it being a subsidiary of VSCL along with its strong distribution channel.

Key rating drivers and their description

Credit strengths

Benefits of parentage - In FY2021, VSCL acquired over 95% in VMPL, making it a subsidiary company. VSCL has been manufacturing electrical accessories for over 15 years. VMPL contributes 23-25% to the Group's revenues and derives operational synergies in terms of a common management, better pricing on raw material procurement, better realisation on its sales and access to advances from the parent and group companies coupled with corporate guarantee from its parent company.

Diversified product range with a wide distribution network - VMPL is engaged in the manufacture and sale of electrical accessories along with other products under the brand name of Vankon through a wide network of 1,200-1,500 distributors and dealers. Earlier, the company was mostly present in Delhi NCR, Uttar Pradesh, Rajasthan and Maharashtra. However, post the acquisition by VSCL in FY2021, VMPL has been able to expand to other markets. The company's customer concentration risks are moderate with the top five customers contributing 20-25% to the overall sales in recent years. ICRA notes that VSCL's wide distribution network is likely to support VMPL's revenue growth in the near to medium term.

Credit challenges

Intense competition resulting in moderate scale of operations - VMPL is a moderate player in the highly fragmented and competitive cable industry with the revenue being in the range of Rs. 65-70 crore over the past five fiscals. The company faces stiff competition from both organised and unorganised players supplying wires and cables, which limits its pricing flexibility and bargaining power with customers, exerting pressure on its revenues and margins. Further, the company faces competition from peers and contract manufacturers for branded players. Nevertheless, the access to new markets as a part of the Veto Group coupled with the company's wide distribution network is likely to support the company's revenue growth in the near term.

Moderate financial risk profile - VMPL's total debt levels remained high at Rs 25.7 crore as on March 31, 2023 [P], comprising loans from parent company (VSCL), directors and working capital borrowings from bank. The high debt levels resulted in moderate gearing of 1.3 times and high leverage of 4.6 times in FY2023. The company's debt coverage metrics also moderate with an interest coverage ratio of 2.5 times for FY2023. However, at a consolidated level, the capital structure remains comfortable due to a healthy net worth and limited external debt, thus providing comfort to some extent. Nevertheless, ICRA notes that the company's operations are highly working capital intensive and any scale up in business operations will result in an incremental requirement of external debt in the form of working capital borrowings or unsecured loans which may negatively impact its debt coverage indicators.

Working capital-intensive operations - VMPL sells its products mainly through dealers/distributors and extends a credit period of three-four months, as per the industry norms. Additionally, the company needs to maintain high inventory levels considering the various models of the products, resulting in high working capital intensity, which increased to 63.3% in FY2023 [P] from 46.5% in FY2022 and is expected to be maintained at similar levels, going forward.

Liquidity position: Adequate

VMPL's liquidity position is adequate, supported by free cash balance of ~Rs. 1.0 crore as on March 31, 2023[P] and sufficient cushion in working capital limits. VMPL has limited repayment obligations lined up over the medium term with no major capex plan, thus supporting its overall liquidity position. The company's liquidity position is expected to remain adequate on the back of moderate accruals from the business.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if there is a sustained improvement in revenue and profitability margins coupled with an improvement in working capital management. Also, an improvement in the credit profile of its parent, Veto Switchgears and Cables Limited (VSCL), could be a positive factor.

Negative factors – The rating could be downgraded if there is a significant decline in revenue or profitability, or if the company undertakes a large debt-funded capex, or if the working capital cycle is elongated, weakening VMPL's credit profile. The rating may also be under pressure if the credit profile of Veto Switchgears and Cables Limited (VSCL) deteriorates or the linkage with its parent, VSCL, weakens. A TOL/TNW over 3.0 times on a sustained basis will also weigh on the rating.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Impact of Implicit support from Parent or group on an Issuer's Credit Rating

Parent/Group Support	Parent Company: Veto Switchgears and Cables Limited (VSCL); ICRA expects VSCL (rated [ICRA]BBB+(Stable)/[ICRA]A2) to be willing to extend financial support to VMPL, should there be a need, given the strategic importance it holds for the Group
Consolidation/Standalone	The rating is based on the company's standalone financial profile

About the company

Vankon Modular Private Limited (VMPL), incorporated in May 2015, manufactures electrical accessories like switches, sockets, switch boards, holders, modular plates, regulators, miniature circuit breaker (MCB). It also deals in other accessories like compact fluorescent lamps (CFL), LED lights and fans. The company has a wide distribution network with more than 1,500 dealers and distributors with market presence in Uttar Pradesh, Delhi NCR, Rajasthan and Maharashtra. The company has its manufacturing unit spread across 2,000 square feet at Vasai, Mumbai. Veto Switchgears and Cables Limited (VSCL) acquired a 46.0% stake in Vankon Modular Private Limited (VMPL) in November 2020, which was increased to 95.5% in February 2021. Both VSCL and VMPL operate under the same management with an integrated approach towards all the operations.

Key financial indicators (audited)

Vankon Modular Private Limited (standalone)	FY2021 (A)	FY2022 (A)	FY2023 (Prov)
Operating income (Rs. crore)	57.4	66.0	65.6
PAT (Rs. crore)	1.9	3.9	4.6
OPBDIT/OI (%)	5.5%	7.9%	8.5%
PAT/OI (%)	3.3%	5.8%	7.0%
Total outside liabilities/Tangible net worth (times)	2.5	3.1	2.3
Total debt/OPBDIT (times)	3.0	3.8	4.6
Interest coverage (times)	4.3	3.9	2.5

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Jun 30, 2023	Apr 01, 2022	-	-
1	Fund based - Cash credit	Long Term	10.00	-	[ICRA] BB+ (Stable)	[ICRA] BB+ (Stable)	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund based – Cash credit	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Long term - Fund based- Cash Credit**	-	-	-	10.00	[ICRA]BB+ (Stable)

Source: *Vankon Modular Private Limited*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis: Not Applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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