May 20, 2024

Vashi Integrated Solutions Limited: Rating reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Fund Based – Cash Credit	108.5	194.0	[ICRA]A (Stable); reaffirmed and assigned for the enhanced amount
Long Term – Non Fund Based Facilities	20.0	40.0	[ICRA]A (Stable); reaffirmed and assigned for the enhanced amount
Long Term – Fund Based - Channel Financing	11.5	21.00	[ICRA]A (Stable); reaffirmed and assigned for the enhanced amount
Total	**140.0**	**255.0**	

**Instrument details are provided in Annexure-I*

Rationale

ICRA's reaffirmation of the ratings for Vashi Integrated Solutions Limited (VISL) favourably factors in its strong market position in the distribution of electrical and automation products and its established relationship with reputed original equipment manufacturers (OEMs) like Siemens, Finolex, Polycab, Bonfiglioli, ABB, Legrand, Jinkosolar, Renewsys, etc., supported by the extensive experience of the promoters for over four decades in the industry. The rating also factors in a healthy financial risk profile marked by comfortable capital structure and debt protection metrics, though the operating margins remain thin, given the relatively low value-added nature of the business.

VISL's revenue grew at a CAGR of ~20% over FY2017-FY2024 as investment picked up in various end-user industries like residential and commercial real estate, data centres, pharma, renewable power, metals and the other broader manufacturing sector in the last four years. The addition of solar power related distribution franchise coupled with industry consolidation in favour of organised players in the wake of supply disruptions over the past few years also aided revenue growth. Going forward, the company is expected to continue to witness a healthy growth over the medium term on the back healthy demand for its distributed products, supported by the Government's push towards manufacturing and infrastructure development, and maintain a healthy financial risk profile. VISL' top ten customers typically account for ~15% of the sales, implying a well-diversified customer base.

These strengths are partially offset by the high geographic concentration in revenue and the susceptibility to cyclicality in end-user industries. The rating also takes into consideration the high working capital-intensive nature of the company's operations, amid elongated payment cycles from customers and high inventory holding requirements against a low creditor period, as prevalent in the distribution business. ICRA also notes the increase in the working capital borrowings to fund the revenue growth as well as to fund the security to the lenders for availing the bank facilities, which has restricted the expected improvement in debt protection metrics, although the metrics continue to remain comfortable. Further, its revenues are susceptible to the performance of its key principals with ~60% of its revenue being derived from distributing the products of the top 5 suppliers/OEMs.

The Stable outlook factors in the expectation that VISL will continue to grow its scale of operations while maintaining stable profitability and comfortable coverage metrics over the medium term.

Key rating drivers and their description

Credit strengths

Established relationships with reputed OEMs and healthy demand outlook - VISL is an authorised channel partner of over 25 leading industrial brands like Siemens, Finolex, Polycab, Bonfiglioli, ABB, Legrand, Jinkosolar, Renewsys, etc. All these OEMs have witnessed strong traction in sales post-Covid as investment picked up in various end-user industries like residential and commercial real estate, data centres, pharma, renewable power, metals, and the other broader manufacturing sector, giving a fillip to the capital goods sector. However, while the near-term outlook for the sector is positive as well, it remains susceptible to the cyclicity of the investment cycle of the various end-user industries. Over the years, the company has developed expertise in identifying and predicting goods required by different customer segments, and it carries an inventory of over Rs. ~175 crore, stocking over 100,000+ SKUs (stock keeping units).

Comfortable coverage and capitalisation indicators - VISL's interest cover (including interest on debt from related parties) has remained healthy, in the range of ~2.3-4.6 times between FY2017 and FY2024, with gearing remaining below 1 times. Above indicators are expected to remain at similar levels going forward as well. VISL's NWC/OI is estimated to have reduced to ~27% in FY2024 as compared to ~32% in FY2023, with higher contribution in sales from Solar EPC end-user segment, which has lower inventory holding requirements and debtor days as compared to other segments. The company's consolidated debt/TNW and debt/OPBITDA remained healthy and stood stable at 0.63 times and 2.54 times, respectively, in FY2024 (PY: 0.63 times and 2.62 times, respectively).

VISL's interest cover is expected to be over ~4 times over the medium term with expectation of steady improvement in OPBIDTA, along with commensurate rise in interest cost on WC borrowings. The DSCR is also expected to remain stable and healthy at ~2.5-3.0 times over FY2025-FY2026,and should improve thereafter. At a standalone level, investment in JVs/subsidiaries/partnerships is estimated to be Rs. ~10 crore as on March 31, 2024. Further, stake in Techno Products Development Pvt Ltd (51% subsidiary) has been sold back to the other partners in Nov-2023 for a consideration of Rs. ~3 crore (VISL had invested Rs. 1.88 crore).

Diversified client base - VISL' top ten customers typically account for ~12-18% of the sales. Hence, the customer risk is well-diversified. With focus on client selection and their due diligence, the incidence of debtor write-offs/provisions has remained low till now despite high debtor days. Further, the clients are reasonably well-diversified across various end-user segments like solar EPC players, machine manufacturers, electrical panel integrators, construction/MEP contractors, retailers, end users, etc.

Credit challenges

Limited bargaining power with suppliers; highly fragmented industry – VISL commands a strong market position near the Bhiwandi region but faces higher competitive intensity from regional players in other industrial clusters, for each of its major product segments. The company largely procures its raw material from a few large OEMs, thus posing supplier concentration risk and resulting in low bargaining power, although its established relationship with the suppliers provides comfort. Despite the high competition, VISL has been focusing on expanding the scale of operations by adding new territories and product segments to diversify from its core operating location of Bhiwandi. While VISL's ROCE is estimated to have improved slightly to ~17-18% in FY2024 (~16% in FY2023) due to a significant improvement in the scale of operations and working capital cycle, the scope for further improvement is limited given the trading nature of the business. Further, the sustainability of the RoCE over 15% has now been established for ~3 years.

Exposure to geographical concentration risks - The rating is constrained by the limited diversification of VISL's revenue streams as it derives a significant proportion of its revenues from near the Bhiwandi industrial cluster, from MEP (mechanical, electrical and plumbing) contractors for construction projects, solar EPC contractors and electrical panel manufacturers, which exposes it to geographical concentration risk. However, the firm is gradually diversifying its geographical presence and adding more products, like solar-related offerings, in the recent past.

High working capital intensity from elongated receivable cycle and high inventories - VISL's working capital intensity remains high owing to its elongated receivable cycle emanating from the extended credit periods (60-90 days typically, which can extend further) being offered to customers, and the high inventories being stocked for prompt customer service. ICRA notes that the company's debtors of more than 90 days outstanding are substantial at ~23-25% typically even as the credit terms are for 30-90 days, while it maintains ~45-60 days of inventories, exposing it to significant debtor provisioning and inventory obsolescence risks. However, debtor and inventory write-offs have been very minimal over the past 5 years, due to prudent customer selection and supplier relationships.

As on March 31, 2024, the company's receivables over 180 days was around Rs. 11.04 crore spread across multiple customers; any large write-off could negatively impact the profitability and coverage metrices. Further, the credit period availed from suppliers is low due to the company's strategy to avail higher discounts on purchases for upfront payments to suppliers. Consequently, the net working capital (NWC)/operating income (OI) has been high at ~27% for FY2024, although it improved from ~31-32% in both FY2023 and FY2022 due to the overall improvement in the working capital cycle and significant improvement in operating income.

Liquidity position: Adequate

The company had Rs. ~1-2 crore of unencumbered cash balances as on March 31, 2024, apart from encumbered cash balances of Rs. ~32 crore. VISL's cash flow from operations has remained low and volatile due to continued investments in working capital, given the thin operating profits and strong revenue growth. However, VISL's fund-based limit utilisation increased during FY2024 and was moderately high at Rs. ~120 crore as on March 31st, 2024 (~72% of sanctioned limits and ~41% of the drawing power; 82%/37% of the sanctioned limit/DP for FY2024). It's utilisation in total sanctioned limits ranged around ~74-96% during FY2024. Further, after factoring in moderate ECLGS term loan repayment commitments of Rs ~5-6 crore annually and routine capex of Rs ~4-6 crore as well to be incurred over FY2025-FY2026, the liquidity remains adequate, considering the cushion in working capital limits and the relatively high cushion in drawing power.

Rating sensitivities

Positive factors – ICRA may upgrade the rating if there is an improvement in its scale of operations, profitability and working capital cycle, leading to a reduction in debt levels and improvement in coverage indicators. A specific trigger for an upgrade would be an interest cover of 6.0 times on a sustained basis.

Negative factors – - Pressure on the rating may arise if an elongation in the working capital cycle adversely impacts the liquidity position of the company, leading to TOL/TNW of more than 1.4 times on a sustained basis. Moreover, any material decline in revenue and profit generation can also lead to a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the rating, ICRA has considered the consolidated financials of VISL. List of companies given in Annexure-2

About the company

The Vashi group deals in trading of electrical power distribution components like switchgears, gearboxes, terminal blocks, meters, drives, motors, automation components like PLCs and VFDs, and wiring accessories, apart from certain service offerings. The group also offers solar panels, inverters, and other components to solar EPC players. It has established relationship with various capital goods OEMs like Siemens, ABB, Polycab, Philips, SKF, Finolex, Hindustan Motors, Castrol, SMC, Unistar, Panasonic, Omron, Bonfigioli, etc. VISL serves as a distribution partner for theses OEMs. VISL was set up by the Dodeja brothers in 1978 as a partnership firm, which got reconstituted as a private limited company in 1991. It has warehouses to stock various SKUs. VISL is ISO 140001 certified. The Group employs over 1000 people (~750 in VISL), of which over 300 are sales engineers. Total warehouse capacity is ~10 lakh sq. ft. including over 22 fulfillment centers.

Key financial indicators (audited)

Consolidated	FY2022	FY2023
Operating income	972.4	1,142.8
PAT	31.1	35.1
OPBDIT/OI	5.6%	5.4%
PAT/OI	3.2%	3.1%
Total outside liabilities/Tangible net worth (times)	1.0	1.0
Total debt/OPBDIT (times)	2.48	2.62
Interest coverage (times)	4.6	4.3

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

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 (FY2025)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022
					May 20, 2023	-	Feb 02, 2023	Jan 03, 2023	-
1	**Cash Credit**	Long term	194.0	-	**[ICRA]A (Stable)**	-	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	
2	**Non Fund Based Facilities**	Long term	40.0	-	**[ICRA]A (Stable)**	-	**[ICRA]A (Stable)**		
3	**Fund Based - Channel Financing**	Long term	21.00	-	**[ICRA]A (Stable)**	-	**[ICRA]A (Stable)**		

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term – Fund Based – Cash Credit	Simple
Long Term – Non Fund Based Facilities	Very Simple
Long Term – Fund Based - Channel Financing	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 I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Cash Credit**	NA	NA	NA	194.0	[ICRA]A (Stable)
NA	**Non Fund Based Facilities**	NA	NA	NA	40.0	[ICRA]A (Stable)
NA	**Fund Based - Channel Financing**	NA	NA	NA	21.00	[ICRA]A (Stable)

Source: Company

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

Annexure II: List of entities considered for consolidated analysis

Company Name	VISL Ownership	Consolidation Approach
Midex Vashi Marketing Pvt Ltd	51.00%	Full Consolidation

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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.

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