December 05, 2022

Velocis Systems Pvt. Limited: Rating reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Limits/ Cash Credit	37.00	45.00	[ICRA]BBB+(Stable); Reaffirmed, assigned for enhanced amount
Non-fund Based Limits	39.25	55.00	[ICRA]A2; Reaffirmed, assigned for enhanced amount
Total	**76.25**	**100.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation for Velocis Systems Pvt. Limited (VSPL) factors its diversified and reputed client base, along with its established relationship with original equipment manufacturers (OEMs). The company reported increase in its FY2022 revenue and ICRA expects it to grow its scale in FY2023 as well owing to its strong order book in the near-to-medium term, backed by buoyant demand. Its financial risk profile is further supported by comfortable capital structure and liquidity position. ICRA also draws comfort from the significant experience of VSPL's promoters and its established track record in the IT industry, coupled with its established relationships with customers and suppliers, particularly CISCO Systems.

However, the ratings are constrained by VSPL's weaker-than-expected profitability, which continued to decline in FY2022 underpinned by high competitive intensity across verticals. In addition, the ratings are constrained by the working capital-intensive nature of the business, which has been accentuated by increasing lead times from the supply side. The company manages its working capital through its suppliers and vendors which results in high TOL/TNW. The company's ability to successfully execute its order book and generate higher revenue, while improving its profitability and maintaining liquidity, will be the key rating sensitivity.

The Stable outlook on the [ICRA]BBB+ rating reflects ICRA's opinion that VSPL will continue to benefit from its experienced promoters and its established relationships with OEMs and distributors, along with its healthy revenue visibility.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in the IT industry – The company has a successful track record of more than two decades Established in 1995, it benefits from its long-standing relationships with OEMs such as CISCO, HP and Dell, Palo Alto, AWS, Microsoft etc. VSPL has been associated with CISCO since 2006, given the OEM's market leadership in network infrastructure equipment.

Strong order book – VSPL has strong order book of ~Rs. 680 crore as of November 2022, which provides healthy revenue visibility over the near to medium term. The healthy order book status comes on the back of buoyant demand, which revived post FY2022 as clients had put their networking related capex on hold during the pandemic. Currently, the monthly billing stands in the range of Rs. 80-90 crore.

Pan India presence and diversified client base – The company is catering to the demand across India through its offices at the eight different metros of the country and a branch in Singapore. VSPL has been able to successfully increase its clientele and the order flow. It has more than 500 customers from both the public as well as the private sectors.

Comfortable capital structure and liquidity profile – VSPL's financial risk profile is characterised by comfortable gearing, which moderated in FY2022 on account of buy-back from promoters, but still remained comfortable at 0.69 time as on March 31, 2022. However, the debt includes vendor bill discounting facility as well, which is an interest free funding through main vendor i.e., CISCO. Moreover, VSPL's liquidity profile continues to remain adequate as reflected by free cash balances of Rs. 40 crore in November 2022, further supported by healthy cushion in working capital limits, wherein VSPL has recently availed enhancements.

Credit challenges

Pressure on margins – The company has faced margins pressures over the past three years as reflected by decline in operating margin from 5.30% in FY2019 to 2.69% in FY2022 largely due to impact of Covid-19 pandemic which further led to healthy competition levels further resulting in higher bargaining power of clients, despite the demand revival. The company's ability to scale up revenues in high value-added service will be critical for margin expansion, in the near to medium term.

Woking capital-intensive operations amid significant competition – VSPL's business is working capital-intensive in nature with a moderately high debtors' cycle, although the working capital is supported by an extended interest-free credit period provided by CISCO through its banking arrangements. With increased lead-time levels, particularly from CISCO, the operations are expected to be more capital intensive.

Competitive intensity of business – In the system integration business, the competitive intensity remains high, resulting in contraction in margins in FY2022. Even in VSPL's other businesses segments, the competitive intensity is high, resulting in variability of business and profitability.

Expected elevation in TOL/TNW – With increasing levels of monthly billing leading to higher expected revenue in FY2023, overall CISCO related creditors will also increase, which will result in further elevated levels of total outside liabilities that form the summation of total debt and creditors. Moreover, in FY2022, a buyback of 13.73-lakh equity shares among promoter shareholders resulted in decline in its net worth. With muted margins, the accretion in net worth will be subdued, which may result in relatively high TOL/TNW ratio, in the near to medium term.

Liquidity position: Adequate

VSPL has an **adequate** liquidity position on account of low average utilisation of working capital limits in the past 12 months, i.e., ~20%, of the total fund-based working capital limits with adequate drawing power availability and free cash of ~Rs. 40 crore as of November 2022. The liquidity is further supported by additional working capital limits, which were recently availed to support the increased scale of operations.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if VSPL demonstrates a sustained improvement in revenues and profitability, leading to an improvement in credit metrics and liquidity. Further, TOL/TNW less than 2.0 times, on a consistent basis, might trigger a rating upgrade.

Negative factors – ICRA could downgrade the ratings in case of a sustained decline in revenue and profitability leading to a reduction in cash accruals. The ratings may also be downgraded if weakening of working capital intensity results in a stretched liquidity position, or the TOL/TNW remains higher than 3.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology IT Hardware- Related services
Parent/Group Support	Not applicable
Consolidation/Standalone	Standalone

About the company

Velocis Systems Private Limited was incorporated in 1995 by Mr. Atul Bansal and Mr. Rishi Kumar Malhotra. Its registered office is in Okhla Industrial Area, New Delhi. The company is involved in three different segments, i.e., system integration services (hardware trading), information technology (IT) solutions and software services, as well as managed services. VSPL's technology partners include CISCO, HP, Dell, Acer, Palo Alto, AWS, Microsoft , etc. Its clientele includes reputed names such as L&T, DBS Bank, Labcorp Durg, Amazon, WM Global, Tata Group, Adani Group, Aditya Birla, NVIDIA, Bharti Airtel, NICSI, NIC, BEL, IOCL & ONGC, etc. VSPL caters to the regional demand pan-India with its presence across the country, having offices in Noida, Delhi, Gurugram, Ahmedabad, Mumbai, Chennai, Bengaluru and Pune.

Key financial indicators (audited)

Consolidated	FY2020 (A)	FY2021 (A)	FY2022 (A)
Operating income	665.89	599.11	664.18
PAT (Rs. crore)	21.91	17.35	13.86
OPBDIT/OI (%)	4.62%	4.02%	2.69%
PAT/OI (%)	3.29%	2.90%	2.09%
Total outside liabilities/Tangible net worth (times)	1.86	2.47	2.48
Total Debt/OPBDIT (times)*	2.35	4.21	3.78
Interest coverage (times)	9.74	9.98	7.87

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore
**Total debt in the above calculations include vendor bill discounting facility as well*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

S.No.	Instrument	Current Rating (FY2023)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Current Rating	FY2022	FY2021	FY2020
					05-Dec-22	30-Sep-21	03-Sep-20	-
1	Cash Credit	Long Term	45	-	[ICRA]BBB+(Stable)	[ICRA]BBB+(Stable)	[ICRA]BBB+(Stable)	-
2	Non-fund based limits	Short Term	55	-	[ICRA]A2	[ICRA]A2	[ICRA]A2	-
3	Unallocated	Long term/Short Term	-	-	-	-	[ICRA]BBB+(Stable)/[ICRA]A2	-

Amount in Rs. crore
**Term loan amount outstanding entirely paid*

Complexity level of the rated instrument

Instrument	Complexity Indicator
Fund-based Limits/Cash Credit	Simple
Non-fund Based Limits	Very 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 No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	-	NA	-	45.00	[ICRA]BBB+(Stable)
NA	Non-fund based limits	-	NA	-	55.00	[ICRA]A2

Source: *Company*

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.

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