

July 10, 2024

Virtuoso Optoelectronics Limited: Rating upgraded to [ICRA]BBB(Stable); rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based Facilities – Cash Credit	53.00	75.00	[ICRA]BBB (Stable); upgraded from [ICRA]BB+(Stable); assigned for enhanced amount
Long-term – Fund-based Facilities – Term Loan	56.22	75.00	[ICRA]BBB (Stable); upgraded from [ICRA]BB+(Stable); assigned for enhanced amount
Long-term – Unallocated	0.78	-	-
Total	110.00	150.00	

*Instrument details are provided in Annexure I

Rationale

The rating action considers the improvement in the credit profile of Virtuoso Optoelectronics Limited (VOEPL) in FY2024 and ICRA's expectation of a stable performance in the near-to-medium term. In FY2024, VOEPL's credit profile was supported by a strong growth in revenues (up 58% YoY) and earnings, primarily driven by a healthy demand in the air conditioning (AC) segment. VOEPL ventured into water dispenser and commercial refrigeration product segments and is also adding deep freezers, semi-automatic washing machines and components for toy manufacturing to its product portfolio over the near-to-medium term, thus supporting business diversity. Given the favourable demand outlook for its products, VOEPL plans to make capital expenditure of Rs. 110-120 crore over the next two years, following a spend of over Rs. 60 crore in FY2024. The rating action also considers strengthening of the net worth base, with equity infusion of Rs. 105.8 crore in FY2024, and Rs. 60 crore expected to be infused (last tranche of warrants) in FY2025. The same is likely to be used for growth capital, as a part of the company's growth plans and is expected to keep the borrowing levels range bound. The rating also considers the experienced management team with requisite professional set-up, coupled with a reputed client base, resulting in repeat business. In addition, over the years, VOEPL has backward integrated into manufacturing key AC components, which supported its growth and profitability.

The rating is, however, constrained by VOEPL's exposure to the inherent seasonality in the refrigeration and air conditioning (RAC) business, leading to volatility in revenues and profitability. Given the seasonality in the RAC industry, the company requires sustained working capital loans for its operations to manufacture and distribute its products. It also needs to continually invest in building capacities and developing new products to meet its customer demands and sustain its competitive advantage. Furthermore, VOEPL, like other electronics manufacturers, faces high dependence on imported raw materials/ components and is susceptible to any significant supply chain disruption. The rating also considers the company's high product and customer concentration, with a single customer / product accounting for more than 75% of its total revenues in FY2024. However, the product and customer concentration are expected to reduce, with the company's initiatives towards manufacturing new products and addition of customers. The rating also factors in VOEPL's moderate coverage metrics over the years, which are expected to remain range-bound in the near to medium term, given its regular debt-funded capex requirement in business and high working capital requirements. Judicious funding of the capex and efficient working capital management, to keep the liquidity requirements at manageable levels, will remain key rating sensitivities on an ongoing basis.

The Stable outlook on the rating reflects ICRA's expectation that VOEPL will continue to benefit from its established relationships with its customers and healthy demand of the room AC industry, and its product diversification initiatives, which are expected to provide further stability to cash flows.

Key rating drivers and their description

Credit strengths

Established track record in EMS business and strong management team – VOEPL has more than eight years of experience in the EMS business. The experienced management team with requisite professional set-up is led by Mr. Sukrit Bharti, the Managing Director of the company. Over the past few years, the company has also started manufacturing indoor unit and outdoor unit of air conditioner. The company has now started manufacturing water dispensers in FY2024 and plans to manufacture deep freezers, refrigerator and washing machines in FY2025.

Robust growth in scale of operations, coupled with a reputed client base – The company's scale of operations jumped 58% to Rs. 531.1 crore in FY2024 on a YoY basis. Further, the company is expected to witness a healthy revenue growth in the near-to-medium term owing to healthy demand from its key customer in the AC segment and diversification of product profile. Over the years, VOEPL has been able to maintain a healthy relationship with its reputed client base, resulting in repeat business. Further, VOEPL received approvals under the Production Linked Incentive (PLI) scheme announced for the white goods (air conditioners and LEDs)— which is likely to support its growth prospects in the near-to-medium term.

Significant strengthening of net worth base through sizeable equity infusions – The company's net worth improved significantly to Rs. 209.6 crore as on March 31, 2024 compared to Rs. 93.7 crore in FY2023 owing to sizeable equity infusion through preferential shares and share warrants aggregating to Rs. 105.8 crore in FY2024 and further planned infusion of Rs. 60 crore in FY2025 through the second tranche of share warrants.

Favourable outlook for the Indian AC Industry supports long-term growth prospects – Increasing urbanisation, climate change and improving standards of living are expected to provide a huge opportunity for AC original equipment manufacturers (OEMs) in the domestic market. In addition, favourable regulatory developments in the recent past, like the production linked incentive (PLI) scheme for the AC component sector, provide strong growth impetus for the industry over the medium-to-long term.

Credit challenges

Moderate coverage indicators, given the capital intensive nature of business, necessitating regular debt-funded capex – The company has moderate coverage metrics over the years, as indicated by total Debt/ OPBDITA of 4.3 times (5.5 times in FY2023) and interest coverage of 2.6 times (2.5 times in FY2023) as on March 31, 2024. However, the same improved from FY2023. These are expected to remain range-bound in the near term, given its debt-funded expansion plans, which are mandated to support its growth plans. However, over the medium term, the coverage indicators are expected to improve as the returns from product diversification initiatives and scaling up accrue to the company. The company has adequate liquidity, supported by equity infusion in FY2024 and pending share warrant tranche in FY2025, which will support its working capital and capex requirement, limiting the external debt requirement in the near-to-medium term.

Working capital intensive nature of business – Although the net working capital/ operating income improved to 37% in FY2024 from 52.3% in FY2023 owing to improvement in the receivables cycle, at an absolute level, it continues to remain high due to its working capital-intensive nature of business. Given the competition in the AC industry and its inherent seasonality, the company requires large working capital to cater to the customer demands in a timely manner.

Exposed to high product and customer concentration risks – The company derives more than 75% of its top line from a single product segment and a single customer, which exposes the company to high product and customer concentration risks. However, the company plans to diversify its product profile and over the medium term, the customer concentration is

expected to come down from the current high levels, though the extent of dependence on few customers will remain a monitorable.

Exposed to inherent seasonality in AC business – A dominant share of VOEPL’s revenues is derived from the AC segment sales (more than 75%), demand of which is seasonal (January to June) and is susceptible to changes in weather conditions.

Environmental and social risks

Environmental considerations – Air conditioner manufacturers remain exposed to tightening government regulations, because of the transition towards a low carbon economy and a consequent push towards energy-efficient products. This may require higher investments towards meeting the evolving and tighter regulatory standards. However, the company is actively working on improving energy efficiency.

Social considerations – VOEPL has healthy dependence on human capital with technological expertise. Thus, retaining human capital and maintaining healthy relationships with employees and suppliers remain essential for disruption-free operations for the entity. The social risk pertaining to demographics and consumer trend remains generally low, given the increasing demand for air conditioners. The company’s ability to execute orders and to obtain new clients also depend on its ability to attract, train, motivate and retain highly skilled professionals, particularly at managerial levels.

Liquidity position: Adequate

The overall liquidity position remains adequate with moderate average utilisation of fund-based limits of 39% (excluding bill discounting) of the total sanctioned limits for the last 12 months ending in May 2024. The liquidity position of the company is also supported by bill discounting facilities available with the company with an average utilisation of 31% in the last 12 months ending in May 2024. The company has repayment obligations of ~Rs. 17.4 crore in FY2025 and FY2026 each, which are expected to be adequately funded by cash accruals. Given its regular debt-funded capex requirements and high working capital needs, judicious funding of the capex and efficient working capital management are expected to keep the liquidity requirements at manageable levels. The liquidity is also supported by fresh equity infusion of Rs. 105.8 crore in FY2024. There are further equity infusion plans of Rs. 60 crore through warrants in FY2025.

Rating sensitivities

Positive factors – ICRA could upgrade VOEPL’s rating if it demonstrates a significant increase in its scale of operations and improve its profitability along with diversification of its product and customer profile, leading to healthy cash accruals, comfortable credit metrics and liquidity profile.

Negative factors – Pressure on VOEPL’s rating could arise if there is a significant moderation in revenue and profitability, a sustained increase in the working capital intensity, any large debt-funded capex or a decline in profitability, resulting in material weakening of the company's liquidity and credit metrics. In addition, any loss of business from a key client, a significant slowdown in its key product segments that materially affects its financial performance, would also be a negative trigger. Debt service coverage ratio (DSCR) of less than 1.4 times on a sustained basis may also result in a negative rating action.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	NA
Consolidation/Standalone	Consolidated

About the company

The company was incorporated by Mr. Sukrit and Vishrut Bharati on September 11, 2015 as Virtuoso Optoelectronics Private Limited in Nashik, Maharashtra. Subsequently, it was converted into a public limited company in March 2021 and its name was changed to Virtuoso Optoelectronics Limited. The company started its operation with Electronic Manufacturing Services (EMS) manufacturing. In FY2021, it started manufacturing indoor and outdoor units for ACs. VOEPL serves under both original equipment manufacturer (OEM) and original design manufacturer (ODM) business models. Under the OEM model, the company manufactures and supplies indoor and outdoor units of AC based on designs developed by its customers. These customers further distribute these products under their own brands. Under the ODM model, in addition to manufacturing, it conceptualises and designs products, which are then marketed to VOEPL's clients' customers clients under their brand. Under the ODM model, the products include electronic products and services and lighting products. The company also ventured into manufacturing of water dispensers from Q4 FY2023.

Key financial indicators (audited)

	FY2023	FY2024
Operating income	337.3	531.1
PAT	7.8	10.1
OPBDIT/OI	10.0%	9.7%
PAT/OI	2.3%	1.9%
Total outside liabilities/Tangible net worth (times)	3.0	1.6
Total debt/OPBDIT (times)	5.5	4.3
Interest coverage (times)	2.5	2.6

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore, Numbers adjusted wherever necessary

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)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
			July 10, 2024	April 18, 2023	-	-
1 Long-term – Fund-based Facilities – Cash Credit	Long term	75.00	[ICRA]BBB (Stable)	[ICRA]BB+ (Stable)	-	-
2 Long-term – Fund-based Facilities – Term Loan	Long term	75.00	[ICRA]BBB (Stable)	[ICRA]BB+ (Stable)	-	-
3 Long-term- Unallocated	Long term	-	-	[ICRA]BB+ (Stable)	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based Facilities – Cash Credit	Simple
Long-term – Fund-based Facilities – Term Loan	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	Long-term – Fund-based Facilities – Cash Credit	NA	NA	NA	75.00	[ICRA]BBB (Stable)
NA	Long-term – Fund-based Facilities – Term Loan	FY2018	NA	FY2030	75.00	[ICRA]BBB (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	Ownership	Consolidation Approach
YLP Solutions Private Limited	51.00%	Full Consolidation

Source: Company, BSE

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