

## Vikas Spool Private Limited

September 12, 2018

### Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based Cash Credit	8.00	8.00	[ICRA]BB+ (Stable); Reaffirmed
Long-term Fund-based Term Loan	0.82	0.82	[ICRA]BB+ (Stable); Reaffirmed
Short-term Non-fund Based	2.12	2.12	[ICRA]A4+; Reaffirmed
Long Term/ Short Term - Unallocated	3.06	3.06	[ICRA]BB+ (Stable)/ [ICRA]A4+; Reaffirmed
<b>Total</b>	<b>14.00</b>	<b>14.00</b>	

\*Instrument details are provided in Annexure-1

### Rating action

ICRA has reaffirmed its long-term rating of [ICRA]BB+ (pronounced ICRA double B plus) and short-term rating of [ICRA]A4+ (pronounced ICRA A four plus) on the Rs. 14.00-crore bank facilities of Vikas Spool Private Limited (VSPL)<sup>1</sup>. The outlook on the long-term rating is Stable.

### Rationale

The ratings reaffirmation continues to take into account the extensive experience of the promoters in the spool-manufacturing business and the established customer and supplier base of the company. The ratings also take into consideration the healthy capacity utilisation of VSPL and the improvement in the gearing levels and debt coverage indicators.

However, the ratings are constrained by the company's modest scale of operations along with the limited demand for spool as it primarily finds application in the wire and cable industry. This, coupled with the exposure to fluctuations in the raw material prices, results in modest profitability indicators. The ratings further take into consideration the ongoing capital expenditure of the company as it is shifting its existing operations to a new location besides adding of new capacities and a new product line (e-rickshaw rooftop) at a total expected project cost of Rs. 24.48 crore. This is likely to impact the gearing levels and debt coverage indicators in the near-to-medium term.

### Outlook: Stable

ICRA believes that VSPL will continue to benefit from the extensive experience of the promoters in the spool manufacturing business. The outlook may be revised to Positive if consistent growth in revenues and profitability, improved coverage indicators and better working capital management, strengthen the financial risk profile. The outlook may be revised to Negative if cash accruals are lower than expected because of a decline in profitability, or if a stretch in working capital cycle weakens its liquidity. Timely execution of the proposed capital expenditure will be key monitorable.

<sup>1</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

## Key rating drivers

### Credit strengths

**Extensive experience of promoters in spool manufacturing business** - VSPL's operations are overseen by the directors Mr. Shiv Janam Yadav and Mr. Vikas Yadav (son of Mr. Shiv Janam Yadav), who have been involved in the spool manufacturing industry for over three decades. The directors are actively involved in the day-to-day operations of the company.

**Healthy capacity utilisation levels** - Despite the expansion of production capacity in FY2018, the capacity utilisation levels of the company remained healthy at 79% in FY2018.

**Comfortable capital structure and debt coverage indicators** – VSPL's capital structure remained comfortable with debt-equity ratio of 0.50 times in FY2018 owing to a decline in working capital borrowings. The coverage indicators of the company remained comfortable as reflected by OPBDITA/Interest of 3.89 times, Total Debt/OPBDITA of 1.82 times and NCA/Total Debt of 41%, as on March 31, 2018. However, the gearing and debt coverage indicators are expected to moderate in near-to-medium term due to ongoing capital expenditure plans.

### Credit challenges

**Moderate scale of operations; moderate profitability indicators** - VSPL has a moderate scale of operations with revenues of Rs. 53.48 crore in FY2018 against Rs. 45.43 crore in FY2017, which indicates a YoY growth of 18%. The profitability of the company remains moderate with operating margin in the range of 7-8% in the last four to five years.

**Profitability remains vulnerable to raw material price fluctuations** - The margins of the company are largely affected by raw material price fluctuation, which in turn affects sales realisations. Any adverse movement in the price of raw materials could have an adverse impact on the company's margins.

**Limited demand for spool** - The demand for spools is primarily limited as it finds application primarily in the wire and cable industry.

**Analytical approach:** For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

#### Links to applicable criteria

[Corporate Credit Rating Methodology](#)

### About the company

VSPL was established in 1985 as a proprietorship firm for trading spools. It began commercial manufacturing of spools in 1992. It converted into a private limited company in March 2005. The company manufactures plastic spools of different and varied quality, which primarily find usage in wire industry covering copper wire and strips, stainless steel wire, aluminium wire and strips, welding wire, special purpose wires and cables. The manufacturing facility of the company is located at Bahadurgarh, Haryana and has an annual installed capacity of 60 lakh kg per annum.

In FY2018, the company reported a net profit of Rs. 1.75 crore on an OI of Rs. 53.48 crore compared with a net profit of Rs. 1.17 crore on an OI of 45.53 crore in the previous year.

### Key financial indicators (audited)

	FY2016	FY2017	FY2018
Operating Income (Rs. crore)	40.98	45.43	53.48
PAT (Rs. crore)	0.72	1.17	1.75
OPBDIT/OI (%)	8.00%	8.29%	7.68%
RoCE (%)	14.14%	14.04%	14.10%
Total Debt/TNW (times)	1.24	0.73	0.50
Total Debt/OPBDIT (times)	3.69	2.55	1.82
Interest Coverage (times)	1.93	2.82	3.89

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

**Any other information: None**

### Rating history for last three years

Current Rating (FY2019)					Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding as on March 31, 2018 (Rs. crore)	Date & Rating September 2018	Date & Rating in	Date & Rating in	Date & Rating in
					FY2018 October 2017	FY2017 June 2016	FY2016
1 Cash Credit	Long Term	8.00		[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB (Stable)	-
2 Term Loan	Long Term	0.82	4.54	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB (Stable)	-
3 Non-fund Based	Short Term	2.12		[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	-
4 Unallocated	Long Term/ Short Term	3.06		[ICRA]BB+ (Stable)/ [ICRA]A4+	[ICRA]BB+ (Stable)/ [ICRA]A4+	[ICRA]BB (Stable)/ [ICRA]A4+	-

### Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

## 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	NA	NA	8.00	[ICRA]BB+ (Stable)
NA	Term Loan	June 2015	NA	FY2020	0.82	[ICRA]BB+ (Stable)
NA	Non-fund Based	NA	NA	NA	2.12	[ICRA]A4+
NA	Unallocated	NA	NA	NA	3.06	[ICRA]BB+ (Stable)/ [ICRA]A4+

Source: VSPL

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