December 17, 2020

Veto Switchgears and Cables Limited: Ratings reaffirmed; outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based – Cash Credit	40.00	40.00	[ICRA]BBB+ (Stable), reaffirmed; outlook revised from Negative
Fund Based – Term Loan	3.10	3.10	[ICRA]BBB+ (Stable), reaffirmed; outlook revised from Negative
Non-fund Based	10.00	10.00	[ICRA]A2; reaffirmed
Total	**53.10**	**53.10**	

**Instrument details are provided in Annexure-1*

Rationale

The revision of outlook factors in the improvement in the Group's operating profit margin (OPM) in FY2020, which had declined significantly in FY2019. Moreover, H1 FY2021, the Group has reported stable sales turnover and OPM. The liquidity of Veto Switchgears and Cables Limited (VSCL) is comfortable with low utilisation of working capital limits. This apart, the company has acquired a 46% equity stake in Vankon Modular Private Limited (VMPL), which will provide additional selling and distribution support to the Group. The rating continues to factor in the experience of the promoters in the wires and cables business along with the healthy financial profile of the Group with gearing of 0.14 times and total debt/OPBDITA of 1.28 times in FY2020. VSCL's established brand presence, particularly in Rajasthan and a wide network comprising around ~2,500 dealers and nine depots covering eight states ensures efficient sales and distribution network. Further, the Group has been able to diversify its geographical presence in the domestic markets by adding more depots in the states, where it had limited presence in the past, and acquired an operational LED manufacturing facility in Vasai, Mumbai.

The rating continues to be constrained by the Group's moderate scale and working capital-intensive nature of operations on account of high inventory and receivables position. The liquidation of unsold finished goods of Dubai operations would remain crucial for profitability in the years to come. The Group had closed its Dubai business operations in FY2019 and has ~Rs. 30-crore unsold inventory as on September 2020. The rating also factors in the intensely competitive nature of wires and cables business, which leads to pricing pressure for all industry participants. The Group's exposure to volatility in the price of key raw materials, including copper, is another credit challenge.

The Stable outlook on the [ICRA]BBB+ rating reflects ICRA's opinion that VSCL's operational sales turnover and profitability would remain stable by virtue of its established presence in the business and strong distribution channel.

Key rating drivers and their description

Credit strengths

Significant experience of promoters in wires and cables industry - While VSCL was incorporated in 2007 to manufacture wires and cables, etc., the promoters have more than two decades of experience. The company manufactures wires and cables (industrial cables, standard cables, telephone and co-axial wires) and electrical accessories (general switches, modular switches, extension cord, isolator boxes and others). It is also involved in the trading of products like ceiling fans, compact fluorescent lamps (CFL), LED lights and others.

Well-established brand with wide distribution network - The Group has around nine depots in India located across Delhi, Ghaziabad, Jaipur, Malad, Surat, Indore, Haridwar, Allahabad and Bhatinda. The depot in each location caters to all the requirements of that particular region. The Group sells its products mainly through dealers (around 2,500) spread across India. The company's plan to acquire an operating LED manufacturing facility in the current fiscal would increase its presence in the western states, other than Rajasthan.

Acquisition of 46% stake in VMPL augurs well for VSCL - The company has acquired a 46% stake in VMPL is November 2020 with an investment of ~Rs. 2.08 crore. VMPL, which has presence mainly in Delhi NCR, Uttar Pradesh, Rajasthan and Maharashtra, manufactures electrical accessories, LED lighting, wires and cables. VMPL's strong marketing and distribution would help the Group to grow in new markets.

Comfortable capital structure and coverage indicators - VSCL's capital structure is comfortable due to strong net worth and low dependence of bank funding to run the business. The interest coverage and DSCR were also comfortable at 5.06 times and 2.48 times, respectively in FY2020.

Credit challenges

Decline in sales turnover in FY2020 due to closure of Dubai business - The Group decided to close the Dubai operations due to long receivables. This substantially impacted the revenue growth for the company in FY2020. The company also has sizeable unsold finished inventory in Dubai as on September 30, 2020; the realisation from the unsold inventories would remain crucial for profitability in the years to come. However, the Group is likely to report stable profitability and moderate revenue growth in FY2020 on account improving domestic demand.

Intensely competitive industry and limited product portfolio offering compared to established players - The Group faces stiff competition from both organised and unorganised players supplying wires and cables, which limits its pricing flexibility and bargaining power with customers, thereby putting pressure on its revenues and margins.

High working capital intensity due to high inventory levels impacts liquidity - The Group sells its products mainly through dealers and extends a credit period of around three months to dealers for electrical accessories and of around one month for wires and cables. However, the credit period generally extends to 120–140 days. As on March 31, 2019 and March 31, 2020, the Group had piled up inventory levels, which exposed it to the risk of inventory losses.

Liquidity position: Adequate

VSCL's liquidity is **adequate** on account of sufficient cushion in the working capital limit and cash and cash equivalent of ~Rs. 15 crore as on September 30, 2020.

Rating sensitivities

Positive triggers - ICRA could upgrade the rating if there is a sustained improvement in the sales turnover and profitability margins coupled with the improvement in working capital management. Specific credit metrics include debtors and inventory days improving to 150 days on a sustained basis.

Negative triggers - ICRA could downgrade the rating if there is a decline in profitability margins, or deterioration in the working capital parameters weakens the financial risk profile**.**

Analytical approach

Analytical Approach	**Comments**
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the consolidated financials of profiles of VSCL and its 100% subsidiaries Veto Electricals Private Limited (VEPL), Veto Overseas Private FZE (VOP) and Veto LED Lighting Private Limited (VLEPL)

About the company

VSCL was incorporated in June 2007 as a partnership firm named Veto Industries. Initially, it was involved in manufacturing wires and cables. In April 2007, the name of the firm was changed to Veto Switchgears and Cables. Subsequently, in June 2007, the constitution of the firm was changed to private limited and its name was changed to Veto Switchgears and Cables Private Limited. The company was listed on NSE Emerge in December 2012 and thereafter on the main board of NSE in April 2015. Over the years, the company has significantly diversified its product profile. Currently, it manufactures wires and cables (industrial cables, standard cables, telephone and coaxial wires) and electrical accessories (general switches, modular switches, extension cord, isolater boxes and others) and trades in ceiling fans, CFL lights, LED lights and others. The company has manufacturing facilities at Haridwar (Uttarakhand) and in Mumbai.

VOP was established in October 2015 and is a wholly-owned subsidiary of VSCL in Dubai. The company is mainly involved in trading electrical goods like fans, sockets, fittings, fixtures, wires and cables, etc. It imports goods from China and sells in international markets such as Africa, Russia and Europe, and the Gulf countries. The management has decided to close this company by the end of current fiscal. VEPL was established in July 2017 and is a wholly-owned subsidiary of VSCL, located at Light Engineering Zone, Mahindra SEZ, Jaipur. The unit is a 100% export-oriented entity and currently exports aluminium wires to the Middle East. VSCL has acquired VLEPL in FY2020 and is likely to commence commercial production of LED lights products in FY2022.

Key financial indicators (Audited)

	FY2019#	FY2020#
Operating Income (Rs. crore)	217.71	150.21
PAT (Rs. crore)	11.57	9.28
OPBDITA/ OI (%)	9.35%	12.56%
RoCE (%)	5.32%	6.18%
Total Outside Liabilities/Tangible Net Worth (times)	0.30x	0.22x
Total Debt/ OPBDITA (times)	1.97x	1.28x
Interest Coverage (times)	5.23x	5.06x
DSCR (times)	2.82x	2.48x

Source: Company data, #consolidated financials of VSCL

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating December 17, 2020	Date & Rating in FY2020 November 4, 2019	Date & Rating in FY2019 February 22, 2019	Date & Rating in FY2019 November 6, 2018
1	Cash Credit	Long Term	40.00	-	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB+ (Negative)**	**[ICRA]BBB+ (Negative)**	**[ICRA]BBB+ (Stable)**
2	Term Loan	Long Term	3.10	**0.31**	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB+ (Negative)**	**[ICRA]BBB+ (Negative)**	**[ICRA]BBB+ (Stable)**
3	Letter of Credit	Short Term	10.00	-	**[ICRA]A2**	**[ICRA]A2**	**[ICRA]A2**	**[ICRA]A2**

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

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	-	-	-	40.00	[ICRA]BBB+ (Stable)
NA	Term Loans	April 2018	-	March 2021	3.10	[ICRA]BBB+ (Stable)
NA	Letter of Credit	-	-	-	10.00	[ICRA]A2

Source: VSCL

Annexure-2: List of entities considered for consolidation

Company Name	Ownership	Consolidation Approach
Vero Switchgears and Cables Limited	NA	Full consolidation
Veto Electricals Private Limited	100%	Full consolidation
Veto Overseas Private FZE	100%	Full consolidation
Veto LED Lighting Private Limited	100%	Full consolidation

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