November 02, 2021 (Revised)

Zetwerk Manufacturing Businesses Pvt Ltd: Fresh rating assigned to Commercial Paper

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund-based	300.00	300.00	[ICRA]BBB(Stable); reaffirmed
Short term – Non-fund based	1000.00	1000.00	[ICRA]A3+; reaffirmed
Short term – Non-fund based (sub-limit of long-term fund-based)	(100.00)	(100.00)	[ICRA]A3+; reaffirmed
Short term – Fund based	50.00	50.00	[ICRA]A3+; reaffirmed
Long term/ Short term – Unallocated	150.00	150.00	[ICRA]BBB(Stable)/[ICRA]A3+; reaffirmed
Commercial Papers	0.00	50.0	[ICRA]A3+; assigned
Total	**1,500.00**	**1,550.00**	

**Instrument details are provided in Annexure-1*

Rationale

The assigned ratings factor in Zetwerk Manufacturing Businesses Pvt Ltd's (Zetwerk) low leverage and comfortable liquidity position, supported by USD 270 million equity infusion in the last 14 months and the company turning profitable at the operating level on the back of scale up in its operations. The company's strong net-worth provides comfortable base for the revenue growth and financial flexibility in the near-term and ICRA expects that Zetwerk's capital structure and liquidity position to remain comfortable over the medium term and that any equity infusion requirement, if arises, would be met in a timely manner.

Zetwerk's operations witnessed strong scale up of operations with the company's revenue growing from Rs 322 crore in FY2020 to Rs 846 crore in FY2021 and expected revenue of around Rs 4,000 crore in FY2022 on the back of strong long-term order book position. The company has already achieved revenue growth of ~490% yoy during 7m FY2022 recording revenues of ~Rs. 1372.0 crore during the same period. Given Zetwerk's manufacturing and turnkey projects contracting operations (with business model of primarily subcontracting) and distributed metal fabrication backed by its vast developing vendor network and its real-time order tracking software, its operations remain highly scalable. Moreover, company's diversification into various end user industries/segments provides strong revenue growth opportunity in addition to segmental diversification. ICRA expects that over the medium-term, continuous scaling up of operation would result in better operating leverage, which would support the company's margins.

The ratings, however, are constrained by the nascent stage of business with limited track record and inherent project execution risks. With the company venturing into large-turnkey projects (primarily through subcontracting) and contract manufacturing in multiple segments (through inhouse and vendors) such as consumer goods, apparels, engineering components etc, the operations in the initial period are exposed to cost-overruns, (given the nascent stages of operation) with the company yet to demonstrate sustainable profits in any of these major segments. While ICRA expects the strong revenue growth momentum to strengthen the company's operating profitability, the same is contingent upon limiting any cost-overruns and stabilization of manpower and other associated expenses.

While the company has demonstrated healthy financial flexibility by virtue of multiple rounds of equity infusion, given its high working capital-intensive nature of operations (with better payments to its vendors, while it offers a credit period to its customers), revenue growth and net margins and liquidity profile also remain contingent upon the company improving its lending terms from bankers (for limits, cash collateral requirements and interest rates). It also noted that the company has moderate M&A and capex plan in next 12-24 months (of Rs 200 crore), given the start-up nature of the business with strong growth capital, any significant alterations in the same impacting its liquidity profile will be a key rating monitorable. Over the medium term, the coverage indicators are likely to remain muted as compared to other entities in the similar rating level. Nevertheless, comfortable liquidity position and company's commitment to maintain about Rs 300-400 crore of liquidity on consistent basis provides comfort.

The Stable outlook on the [ICRA]BBB rating reflects ICRA's opinion that Zetwerk will be able to leverage its scaling up to improve its profitability and has adequate liquidity for contingencies.

Key rating drivers and their description

Credit strengths

Scalable nature of operations; Healthy order book position supports revenue growth in near-term - The company has onboarded several primarily small and medium enterprises (SMEs) for multiple segments – steel fabrication, contract manufacturing and turnkey projects. On account of the same, Zetwerk has been able to secure higher number of orders from its customers and was able to ramp-up its operations quickly by achieving healthy revenue growth in FY2021 and 7M FY2022. The company had an open order book of ~Rs. 5,200 crore as of August 2021 providing healthy near term revenue visibility. The company targets to scale up its operating income to with a monthly revenue run-rate of over Rs 900 crore in the medium-term.

ICRA expects that over the medium-term, continuous scaling up of operation would result in better operating leverage, which would add to the company's net profitability. While the company has consistently recorded operating profits in the recent months, sustainability of the same remains to be seen given that majority of its business segments / projects are in the nascent stages.

Comfortable capital structure and liquidity position; recent round of capital raising has further strengthened liquidity position – The company's capital structure remained comfortable with TOL/TNW of 0.4 times and net worth of ~Rs. 1,288 crore as on March 31, 2021. Since September 2020, it had raised capital through private funding from various PE investors in Q4FY2021 and Q2 FY2022 totalling around USD 270 Million. At present, it avails bank borrowing with sizable cash margin/fixed-deposit as collateral and any increasing bank borrowing will entail additional encumbrance of available free cash. Nonetheless, ICRA expects the capital structure to remain healthy in the near-term with no additional requirement of equity in the near-term.

Credit challenges

High working capital intensity – The business operations involves elongated credit period with customers, while having relatively favourable credit terms for vendors. Hence, the working capital intensity is high due to the credit period offered to its customers and Zetwerk would require a significant increase in its working capital because of its increasing scale. Further, with the company focussing on large turnkey projects, its receivable cycle may tend to get stretched inherent to the nature of business. While near-term WC requirements are met by funding from equity (in addition of banks and NBFCs), the dependence on bank borrowings and vendor financing will increase in the long-term. The company's ability to remain profitable and demonstrated track record order execution will be a key to avail better lending terms from the financial institutions.

Weak profitability – Zetwerk reported losses at the operating level in FY2020 and FY2021 due to high payroll cost, (as the company continued recruiting a sizeable number of employees to achieve higher revenues) and modest margins due to limited value addition given the subcontracting nature of operations and assembling nature of its inhouse manufacturing business. Nevertheless, it has turned profitable in the current fiscal with operating profit from July 2021.

Though the company is an early mover in the technology-enabled space in the supply chain segment, it faces competition from other manufacturing players, which restricts its pricing flexibility. Its raw material margin is likely to be limited in the range of

5-8% and significant scaling up will be required to break even, given the high overhead costs, high interest cost and working capital-intensive nature of operations. Nonetheless, the management has started to focus to execute orders especially in the turnkey and complex engineering components, which fetch them higher margins and should aid margin expansion over the medium term.

Order execution risk – Despite significant scaling up of operations in FY2021 and 7mFY2022, the company being a start-up has limited track record in the manufacturing and contracting business and the operations are yet to demonstrate healthy profitability on a sustained basis. With majority of the long-term turnkey orders being in the initial stages of operations, order execution risk remain on the higher side. With construction business involving high receivable elongation risks, cost escalation risks, progress of these orders will be a key monitorable in the near-term. Nonetheless, ICRA expects the counterparty risks in these projects to be mitigated by reputed end-customers of the projects, and escrow mechanism for payment from the end-customer.

Liquidity position: Adequate

Zetwerk's liquidity position remain adequate with strong cash/investment position of over Rs. 1,400 crores as of September 2021 (excluding encumbered cash). ICRA also notes that Zetwerk's capex plans remain relatively modest in the current year and its high debt repayments being comfortable supported by its liquid funds. While currently liquidity is comfortable with adequate banking/vendor financing limits, significant growth plans may require additional fund based and non-fund-based limits. High overall margin money requirement (and cash collateral) requirements may constrain the liquidity, especially in the backdrop of company's 3x revenue plans over the medium term. Hence, the company ability to sustain profitable operations remain crucial for getting favourable terms with the lenders both in terms of limits and margin money, going forward.

Rating sensitivities

Positive Factors – The ICRA might upgrade the ratings if the company demonstrates healthy scaling up of operations along with sustained improvement in profitability indicators.

Negative Factors – Sharp decline in operating performance or weakening in liquidity position of the company could result in rating downgrade. Specific credit metric which could result in rating downgrade is reduction in unencumbered liquid investments and cash balance below 5% of the annual turnover.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Incorporated in 2017, Zetwerk is a Bengaluru-based start-up promoted by Mr. Amrit Acharya and Mr. Srinath Ramakrushnan. It started as a technology-driven company offering a manufacturing platform to its clients who are primarily original equipment manufacturers (OEMs) and other engineering companies, to procure and execute manufacturing jobs through a network of small and medium enterprises (SMEs) having those capacities. Since then the company has diversified into contract manufacturing of apparels, consumer goods, engineering components etc and has also ventured into turkey projects on a large scale.

The company is promoted by Mr. Amrit Acharya and Mr. Srinath Ramakrushnan, who are engineering graduates from IIT, Madras. Mr. Amrit had worked in ITC Limited in its project division for around four years before completing his masters in UC Berkeley, California. Prior to starting this company, he was working in Mckinsey & Company in the US for almost a year as a management consultant. Mr. Srinath had worked in the supply chain department in ITC Limited for nearly five years and prior to starting this company, he was working in the supply chain department of Zinka Logistics Solutions Private Limited.

Zetwerk is backed by leading Private equity firms' funds such as Kae Capital Fund II India; Kalysta Capital Fund II (Mauritius); Sequoia Capital through SCI Investments V; Accel India (Mauritius) Limited; Lightspeed India Partners II, LLC; Greenoaks Capital Opportunities Fund II LP; D1 Capital Partners Master LP; Avenir Zetwerk Investors LLC; QED Innovation Labs LLP; IIFL Special Opportunities Fund – Series 8 and IIFL Monopolistic Market Intermediaries Fund.

Key financial indicators (audited)

Zetwerk Standalone	FY2020	FY2021 Prov
Operating Income (Rs. crore)	321.9	846.9
PAT (Rs. crore)	-29.0	-60.7
OPBDIT/OI (%)	-8.2%	-7.6%
PAT/OI (%)	-9.0%	-7.2%
Total Outside Liabilities/Tangible Net Worth (times)	0.6	0.4
Total Debt/OPBDIT (times)	-3.7	-1.5
Interest Coverage (times)	-2.3	-2.4

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 (FY2022)						Chronology of Rating History for the past 3 years	
		Type	Amount Rated (Rs. crore)	Amount Outstanding as (Rs. crore)*	Date & Rating in	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Nov 02, 2021	**Sep 16, 2021**	**Sep 22, 2020**	**-**	**-**
1	Fund Based	Long-term	300.00	-	[ICRA]BBB(Stable)	[ICRA]BBB(Stable)	[ICRA]BBB-(Stable)	-	-
2	Non Fund Based Limits	Short term	1,000.00	-	[ICRA]A3+	[ICRA]A3+	[ICRA]A3	-	-
3	Non Fund Based	short term	(100.00)	-	[ICRA]A3+	[ICRA]A3+	[ICRA]A3	-	-
4	Fund Based	short term	50.00	-	[ICRA]A3+	[ICRA]A3+	[ICRA]A3	-	-
5	Unallocated	Long term/ short term	150.00	-	[ICRA]BBB(Stable) /[ICRA]A3+	[ICRA]BBB(Stable) /[ICRA]A3+	[ICRA]BBB-(Stable)/A3	-	-
6	Commercial Paper	Short Term	50.0		[ICRA]A3+	-	-	-	-

* break up of exact details not available

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term – Fund-based	Simple
Short term – Non-fund based	Very Simple
Short term – Non-fund based (sub-limit of long-term fund-based)	Very Simple
Short term – Fund based	Very Simple
Long term/ Short term – Unallocated	Not Applicable
Commercial Paper	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 analyzing 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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No/Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
HDFC Bank	Fund Based	NA	NA	NA	10.00	[ICRA]BBB(Stable)
ICICI Bank	Fund Based	NA	NA	NA	15.00	
Fedral Bank	Fund Based	NA	NA	NA	1.00	
Incred Financial	Fund Based	NA	NA	NA	1.41	
Stride Ventures	Fund Based	NA	NA	NA	1.00	
Innoven Capital	Fund Based	NA	NA	NA	20.05	
Proposed	Fund Based	NA	NA	NA	251.55	
HDFC Bank	Non-Fund Based	NA	NA	NA	90.00	[ICRA]A3+
IDFC Bank	Non-Fund Based	NA	NA	NA	50.00	
RBL Bank	Non-Fund Based	NA	NA	NA	111.00	
ICICI Bank	Non-Fund Based	NA	NA	NA	75.00	
Kotak Bank	Non-Fund Based	NA	NA	NA	30.00	
Axis Bank	Non-Fund Based	NA	NA	NA	50.00	
HSBC Bank	Non-Fund Based	NA	NA	NA	45.00	
Citi Bank	Non-Fund Based	NA	NA	NA	20.00	
Federal Bank	Non-Fund Based	NA	NA	NA	45.00	
Proposed	Non-Fund Based	NA	NA	NA	484.00	
Proposed	Non-Fund Based	NA	NA	NA	(100.00)	
Proposed	Fund Based	NA	NA	NA	50.00	
NA	Unallocated	NA	NA	NA	150.00	[ICRA]BBB(Stable)/[ICRA]A3+
Yet to be placed	Commercial Paper	NA	NA	NA	50.0	[ICRA]A3+

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
-	-	-

Corrigendum

Details of lenders have been updated in Annexure 1

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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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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