October 23, 2023

Vinyas Innovative Technologies Limited: Ratings upgraded; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Cash Credit	62.00	80.00	[ICRA]BB+ (Stable); upgraded from [ICRA]BB (Stable), assigned for enhanced amount
Long-term Fund-based – Term Loans	22.41	19.11	[ICRA]BB+ (Stable); upgraded from [ICRA]BB (Stable)
Short-term – Non-fund Based	25.00	40.00	[ICRA]A4+; upgraded from [ICRA]A4, assigned for enhanced amount
Long-term – Unallocated	0.08	0.89	[ICRA]BB+ (Stable); upgraded from [ICRA]BB (Stable), assigned for enhanced amount
Total	**109.49**	**140.00**	

**Instrument details are provided in Annexure-I*

Rationale

ICRA's ratings upgrade considers Vinyas Innovative Technologies Limited's (VITL) successful initial public offer (IPO) which positions it well to implement its growth plans and address working capital needs going forward. VITL has a strong order book, which provides healthy revenue visibility. The company received a total of Rs. 72.66 crore as part of infusion by investors in Q1 FY2024 and subsequently through IPO in October 2023. Consequently, the liquidity position of the company improved. The company also witnessed an improvement in margins in FY2023, supported by direct order from key customers and receipt of pending escalations. ICRA continues to positively factor the significant experience of its promoters in the industry, mainly assembly of printed circuit boards (PCBs) for the defence sector, a healthy demand outlook and VITL's long track record of serving reputed customers.

However, the ratings are constrained by VITL's highly working capital-intensive nature of operations led by high inventory holding and a long receivable cycle. Consequently, the company's liquidity was stretched in the past. VTIL's debt levels have remained high owing to dependence on working capital loans resulting in modest debt coverage metrics. However, ICRA expects the company's debt coverage metrics to improve gradually as order execution picks up and earnings improve, going forward. The ratings also factor in the competition from other players and the high client and industry concentration risks, though a long track record with these customers acts as a mitigant.

The Stable outlook on the [ICRA]BB+ rating reflects ICRA's opinion that VITL will continue to benefit from its expertise in PCB manufacturing and healthy demand potential in the sector including the defence space and would continue to get orders from Indian offset partners, given its improving execution track record.

Key rating drivers and their description

Credit strengths

Significant experience of promoters in defence components manufacturing industry – VITL was established in 2001 and has more than two decades of operations, mainly in the defence components manufacturing industry. The promoter and Managing Director, Mr. Narendra Narayanan, has extensive experience in the electronics manufacturing industry (EMS). Mr. Narendra is supported by his son, Mr. Sumukh Narendra, and other professionals in the company.

Improved balance sheet position and liquidity with successful IPO – VITL raised Rs. 54.66 crore of equity through IPO in October 2023 on the SME platform, which will be utilised mainly for working capital requirement. Before this, the company had also received an equity infusion to the tune Rs. 18 crore from new investors in May 2023, earlier expected in Q4 FY2023. While the company's net worth stands improved, these funds would enable the company to fund its growth plans and improve its liquidity position.

Healthy order book position and established track record of serving reputed customers – VITL has a strong order book worth more than Rs. 1,762 crore (as of April 2023), which is to be executed over the medium term. These orders are primarily in the defence sector though also include industrial, consumer, medical and other industries. The company has a reputed customer base, which includes established Indian offset partners such as DCX Systems Pvt. Ltd. (Indian offset partner of ELTA Systems Ltd., Israel) and Alpha Elsec Defence & Aerospace Systems Pvt. Ltd. (Indian offset partner of the European Union). The company has also been directly serving customers from the defence and other industries such as Bharat Electronics Ltd., Larsen & Toubro Limited, Lotus Aviation Technology Pvt. Ltd. and L&T Technology Services Ltd. The company clocked a revenue growth of ~13% in FY2023 with improvement in margins led by direct order from key customers and receipt of pending escalations. The company's ability to maintain the margin improvement going forward will remain crucial.

Credit challenges

Working capital-intensive nature of operations – VITL's working capital intensity remained high historically mainly due to high inventory holding and a long receivable cycle. In Q4 FY2023, the receivable realisation was shorter along with lower-than-estimated revenue booking. The company maintains an inventory of more than six to seven months due to high lead time of key components though majority of the inventory is order-backed. While there is a substantial blockage of funds in receivables, credit from suppliers lends some funding support. The business is expected to remain working capital intensive and recent fund raise supports the company in managing the funding requirements well. VTIL's liquidity position was stretched in the past, reflected in high limit utilisations and delays in depositing statutory dues until Q4 FY2023. However, with liquidity position improving on the back of substantial fund infusion in the current fiscal, a track record of timely statutory payments would be monitorable.

Modest coverage metrics; expected to gradually improve – VITL has remained dependent on debt amid its high funding requirements. It had a high leverage reflected in Debt/OPBDIT of 4.1 times and DSCR of 1.4 times, though improved from FY2022. The debt coverage metrics are expected to improve going forward, with earnings growth and no major debt additions.

High client and industry concentration risks – VITL has been serving reputed customers in the defence and other industries; however, it has been largely dependent on a few customers for revenue generation, historically. The company is making efforts to acquire new clients as well. The company has derived ~80% of its total revenue from its top-three customers in FY2023. This apart, the company has also been deriving ~80-85% revenue from the defence and aerospace industries, which exposes the company to industry concentration as well.

Liquidity position: Adequate

VITL's liquidity profile is adequate, given equity infusions in the current fiscal to the tune of Rs. 72.66 crore, which will be mainly utilised for working capital purposes. This apart, cash generation from the business improved in FY2023 and is expected to continue in FY2024 as well. The company has a moderate cushion (~Rs. 3-4 crore) in cash credit limits. The company does not have any major capex plans. It has annual repayments of Rs. 3.1 crore in FY2024 and Rs. 5.76 crore during FY2025-FY2027, mainly for the emergency credit line guarantee scheme (ECLGS) term loan.

Environmental and Social Risks

Environmental considerations: Environmental risks for industry players include the use and handling of hazardous waste (such as scrap metal, plastics and electric) materials and waste disposal practices. These standards expose VITL to the risk of substantial environmental costs and liabilities, including liabilities associated with past activities. VITL's manufacturing facilities are equipped with permits, licenses and the expertise to handle such hazardous wastes and materials.

Social considerations: VITL is exposed to social risks, including implementation of labour rights and maintaining corporate governance. VITL works towards bettering the quality of lives of the local communities near its manufacturing facilities.

Rating sensitivities

Positive factors – ICRA would upgrade the ratings if the company demonstrates any sustained improvement in earnings, resulting in improved credit metrics while maintaining an adequate liquidity profile. A specific credit metric for an upgrade is if DSCR is higher than 1.4 times, on a sustained basis.

Negative factors – ICRA would downgrade the ratings, if the company reports any sustained decline in earnings. Any major deterioration in the liquidity profile would also be negative for ratings. A specific credit metric for a downgrade is if TOL/TNW[1] is higher than 2.0 times, on a sustained basis.

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 standalone financials of VITL.

About the company

VITL, incorporated in 2001, is involved in the designing, engineering and electronics manufacturing services (EMS) for the original equipment manufacturers (OEMs) and original design manufacturers (ODMs) in the electronics industry. Its key product is printed circuit boards (PCBs). The company provides end-to-end solutions including design for manufacturability, supply chain management, PCB assembly and advanced test solutions, product integration and after-market support to OEMs and ODMs. The company's manufacturing facility is located at Mysuru (Karnataka) and promoted by Mr. Nagendra Narayanan, who is also the Managing Director of the company. The company's equity shares are listed on the NSE Emerge (SME) platform.

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[1] *Total outside liability/Total net worth*

Key financial indicators (audited)

VITL Standalone	FY2022	FY2023
Operating income	207.7	234.5
PAT	1.0	7.3
OPBDIT/OI	5.9%	8.9%
PAT/OI	0.5%	3.1%
Total outside liabilities/Tangible net worth (times)	6.0x	3.7x
DSCR (times)	0.9x	1.4x
Total debt/OPBDIT (times)	7.8x	4.1x
Interest coverage (times)	1.1x	1.6x

Source: Company

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. Crore

Status of non-cooperation with previous CRA: Brickwork Ratings has downgraded and moved the ratings (BWR BB+/Stable/A4+ ISSUER NOT COOPERATING) to the issuer not cooperation category due to the non-receipt of information via a rating rationale published on December 26, 2022.

Any other information: None

Rating history for past three years

Instrument		Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore) *	Date & rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					Oct 23, 2023	Jan 30, 2023	-	-
1	**Cash Credits**	Long Term	80.00	-	[ICRA]BB+ (Stable)	[ICRA]BB (Stable)	-	-
2	**Term Loans**	Long Term	19.11	19.11	[ICRA]BB+ (Stable)	[ICRA]BB (Stable)	-	-
3	**Letter of Credit/BG****	Short Term	40.00	-	[ICRA]A4+	[ICRA]A4	-	-
4	**Unallocated**	Long Term	0.89	-	[ICRA]BB+ (Stable)	[ICRA]BB (Stable)	-	-

*Source: Company, *as of August 31, 2023, **bank guarantee.*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term Fund Based – Cash credit	Simple
Long term Fund Based – Term loans	Simple
Short term Non-Fund Based - Letter of Credit/Bank Guarantee	Very simple
Long term – Unallocated	Not applicable

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	Cash Credit	NA	NA	NA	80.00	[ICRA]BB+ (Stable)
NA	Term Loans	March 2021	NA	March 2027	19.11	[ICRA]BB+ (Stable)
NA	Letter of Credit/BG	NA	NA	NA	40.00	[ICRA]A4+
NA	Unallocated	NA	NA	NA	0.89	[ICRA]BB+ (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 – 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.

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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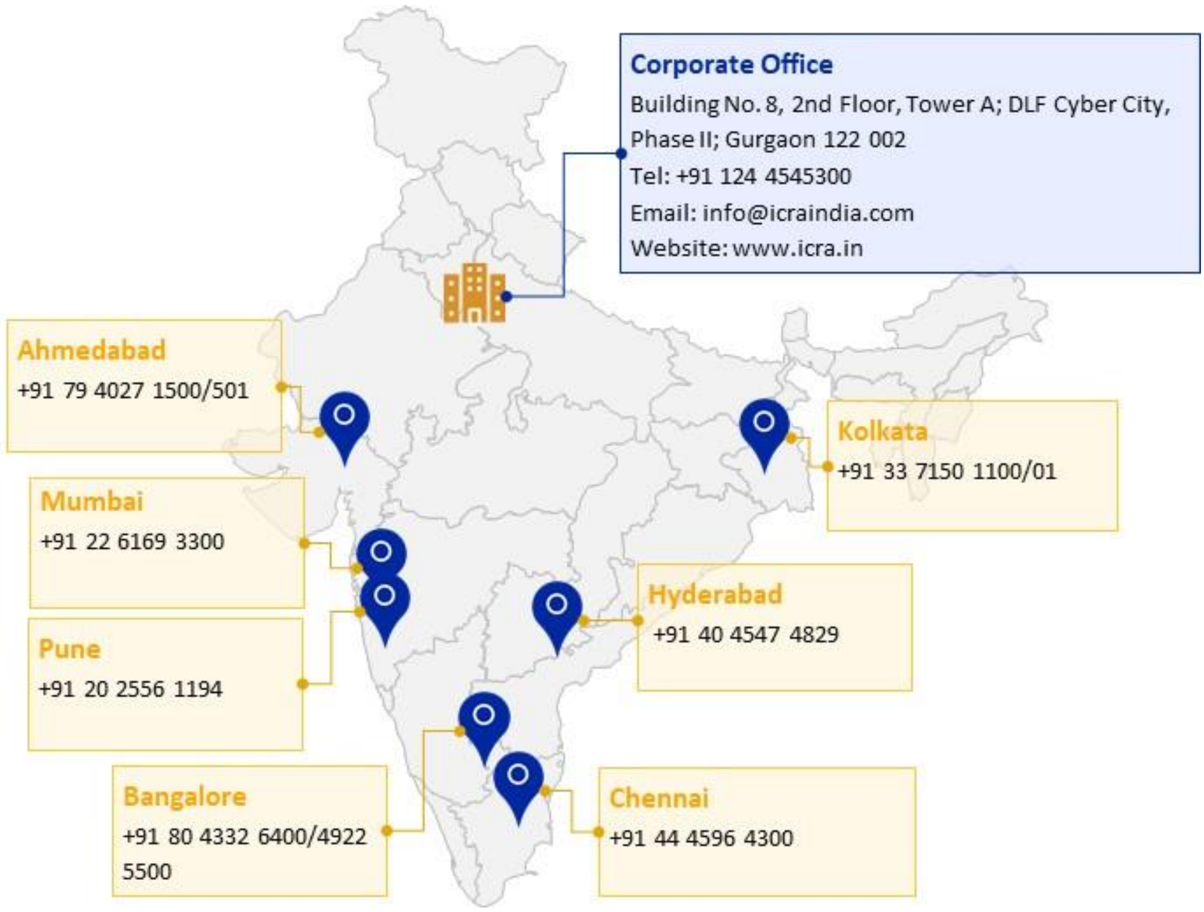

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