

September 23, 2024

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 | 80.00 | 80.00 | [ICRA]BBB- (Stable); upgraded from [ICRA]BB+ (Stable) |
| Long-term Fund-based – Term Loans | 19.11 | 16.60 | [ICRA]BBB- (Stable); upgraded from [ICRA]BB+ (Stable) |
| Short-term – Non-fund Based | 40.00 | 60.00 | [ICRA]A3; upgraded from [ICRA]A4+, assigned for enhanced amount |
| Long-term – Unallocated | 0.89 | 3.40 | [ICRA]BBB- (Stable); upgraded from [ICRA]BB+ (Stable) |
| Total | 140.00 | 160.00 | |

*Instrument details are provided in Annexure-I

Rationale

The ratings upgrade for the bank lines of Vinyas Innovative Technologies Limited's (VITL) considers the expected increase in its top line and earnings on the back of healthy revenue visibility in the medium term. The company has estimated order book, including order in the pipeline, worth ~Rs. 1,488 crore, as of April 2024, to be executed in the next three-four years. The clientele also remains strong, comprising global and domestic players, mainly in the defence sector. VITL has witnessed a healthy increase in revenues by ~35% in FY2024 and improvement in the operating profit margin (OPM) to 10.5% in FY2024 from 8.9% in FY2023 along with sustained increase in return indicators in the last four years, which is expected to remain comfortable in the near-to-medium term. The company's net worth and liquidity profile have improved, post successful completion of the initial public offer (IPO) in October 2023. Most of the proceeds has been utilised in the working capital funding, as intended by the company. The ratings continue to positively factor in 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 and irregular revenue booking, which leads to high inventory holding and elevated receivable generally towards the end of a fiscal. VITL's debt levels have remained high owing to dependence on working capital loans, resulting in improving, though moderate debt coverage metrics. ICRA, however, expects the company's debt coverage metrics to improve gradually as order execution picks up and earnings improve further. ICRA understands that the timely offtake by the customers as per the delivery schedule is critical for VITL to book revenue. Any major delay in lifting inventory by the customers could lead to pressure on revenue and profitability. The ratings also factor in competition from other players along with high client and industry concentration risks, though a long track record mitigates such risks to some extent.

The Stable outlook on the [ICRA] BBB- rating reflects ICRA's opinion that VITL will continue to benefit from its expertise in PCB manufacturing, its strong order book position and healthy demand potential of the defence sector.

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.

Improvement in capitalisation and coverage metrics in FY2024; expected to improve further over medium term – VITL raised Rs. 54.66 crore of equity through IPO in October 2023 on the SME platform, which is utilised mainly for working capital requirement. Before this, the company had also received equity infusion worth Rs. 13 crore from new investors in May 2023, which was also utilised in working capital requirement and capex. While the company's net worth has improved, these funds have enabled the company to support its growth plans and improve its liquidity position. The debt protection metrics also improved in FY2024, with the interest coverage improving to 2.4 times in FY2024 from 1.6 times in FY2023 and TD /EBIDTA to 2.9 times in FY2024 from 4.1 times in FY2023. With an expected improvement in the scale of operations and no debt-funded capex on cards, the debt protection metrics are expected to further improve in the near-to-medium term.

Healthy order pipeline – VITL has a healthy estimated order book worth more than Rs. 1,488 crore (as of April 2024), to be executed over the medium term. These orders contain both confirmed and order-in-pipeline, 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 ~35% in FY2024 with improvement in margins, led by direct order from key customers and receipt of pending escalations.

Credit challenges

Working capital intensive nature of operations – VITL's working capital intensity has remained historically high, mainly due to high inventory holding and a long receivable cycle. In FY2024, the receivable was higher than FY2023 as the company has booked more than 25% of its annual revenue in March 2024. Hence, year-end receivables would reflect the time of revenue booking. The company maintains an inventory of 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.

Average financial profile; expected to improve gradually – VITL has remained dependent on debt amid its high working capital requirements. The debt protection metrics remained at moderate levels with an interest coverage of 2.4 times and total debt/OPBIDTA of 2.9 times as of FY2024, which improved compared to FY2023 level due to better earnings. The debt coverage metrics are expected to improve further going forward, with earnings growth and no major debt additions.

Exposed to 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 ~75% of its total revenue from its top three customers in FY2024. This apart, the company has also been deriving 80-85% of its revenue from the defence and aerospace industries, which exposes the company to industry concentration risk as well.

Liquidity position: Adequate

VITL's liquidity profile is **adequate**, with steady cash generation from business, buffer in cash credit limit of Rs. 3-5 crore and free cash and bank balance of Rs. 5-7 crore, which is expected to be sufficient to take care of the additional working capital and repayment of term loan. The company does not have any major capex plan. It has annual repayments of ~Rs. 6 crore each in FY2025 and FY2026, which are expected to be easily covered by annual cash accruals of Rs. 15-20 crore.

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, licences and expertise to handle such hazardous wastes and materials to ensure continuity of business without any disturbance.

Social considerations: VITL is exposed to social risks, including implementation of labour rights and labour related disruptions. VITL works towards improving 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 a sustained improvement in earnings, resulting in improved credit metrics while maintaining an adequate liquidity profile. A specific credit metric for ratings upgrade includes an interest coverage of higher than 3.0 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 ratings downgrade include interest coverage of less than 2.5 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 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 is promoted by Mr. Nagendra Narayanan, who is also the Managing Director of the company. Its equity shares are listed on the NSE Emerge (SME) platform.

Key financial indicators (audited)

| VITL Standalone | FY2023 | FY2024 |
|--|--------|--------|
| Operating income | 234.5 | 317.2 |
| PAT | 7.3 | 15.3 |
| OPBDIT/OI | 8.9% | 10.5% |
| PAT/OI | 3.1% | 4.8% |
| Total outside liabilities/Tangible net worth (times) | 3.7x | 1.4x |
| Total debt/OPBDIT (times) | 4.1x | 2.9x |
| Interest coverage (times) | 1.6x | 2.4x |

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 kept the ratings (BWR BB/Stable/A4 ISSUER NOT COOPERATING) in the Issuer Not Cooperating category due to non-receipt of information, vide its rating rationale published on February 20, 2024.

Any other information: None

Rating history for past three years

| Instrument | Current (FY2025) | | Chronology of rating history for the past 3 years | | | | | | | |
|------------------------------|------------------|--------------------------|---|--------------------|-----------|-------------------|-----------|-------------------|--------|--------|
| | Type | Amount Rated (Rs. crore) | FY2025 | | FY2024 | | FY2023 | | FY2022 | |
| | | | Date | Rating | Date | Rating | Date | Rating | Date | Rating |
| Cash Credits | Long Term | 80.00 | 23-Sep-24 | [ICRA]BBB-(Stable) | 23-Oct-23 | [ICRA]BB+(Stable) | 30-Jan-23 | [ICRA]BB (Stable) | - | - |
| Term Loans | Long Term | 16.60 | 23-Sep-24 | [ICRA]BBB-(Stable) | 23-Oct-23 | [ICRA]BB+(Stable) | 30-Jan-23 | [ICRA]BB (Stable) | - | - |
| Letter of Credit/BG** | Short Term | 60.00 | 23-Sep-24 | [ICRA]A3 | 23-Oct-23 | [ICRA]A4+ | 30-Jan-23 | [ICRA]A4 | - | - |
| Unallocated | Long Term | 3.40 | 23-Sep-24 | [ICRA]BBB-(Stable) | 23-Oct-23 | [ICRA]BB+(Stable) | 30-Jan-23 | [ICRA]BB (Stable) | - | - |

Source: Company, **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]BBB- (Stable) |
| NA | Term Loans | March 2021 | NA | March 2028 | 16.60 | [ICRA]BBB- (Stable) |
| NA | Letter of Credit/BG | NA | NA | NA | 60.00 | [ICRA]A3 |
| NA | Unallocated | NA | NA | NA | 3.40 | [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 – Not applicable

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