November 04, 2019

Veto Switchgears and Cables Limited: Ratings reaffirmed

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+ (Negative); reaffirmed
Fund Based – Term Loan	3.10	3.10	[ICRA]BBB+ (Negative); reaffirmed
Non-fund Based	10.00	10.00	[ICRA]A2; reaffirmed
Total	**53.10**	**53.10**	

**Instrument details are provided in Annexure-1*

Rationale

The rating action factors in the decline in Veto Switchgears and Cables Limited's (VSCL or the Group) operating income and profitability in FY2019 due to closure of the Dubai operations. This led to a reduction in cash accruals in FY2019 as well. This was, however, accompanied with receipt of funds from Dubai of up to ~Rs. 14 crore, which eased the liquidity profile in the past few months. The financial profile remained healthy with gearing of 0.24 times and Total Debt/OPBDITA of 1.97 times in FY2019.

The rating reaffirmation continues to factor in the experience of the promoters in the wires and cables business. 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 a plan to acquire 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 current fiscal. The rating also factors in the intensely competitive nature of wires and cables business, which leads to pricing pressure for all industry participants and the Group's exposure to volatility in the price of key raw materials, including copper.

The Negative outlook on the [ICRA]BBB+ rating reflects ICRA's opinion that VSCL's sales turnover would further decline in FY2020 and profitability will remain under pressure due to closure of the Dubai operations and unsold finished goods thereof.

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.

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 5.23 times and 2.86 times, respectively in FY2019.

Credit challenges

Decline in sales turnover and profitability in FY2019 - The Group decided to close the Dubai operations due to long receivables cycle. This impacted the revenue growth for the company in FY2019. This apart, there was a slight decline in the revenues from the domestic operations. Its profitability decreased substantially in FY2019 from FY2018 due to losses in the domestic market on account of technology obsolescence of LED lights. The company has sizeable unsold finished inventory at Dubai as on March 31, 2019; the realisation from the unsold inventories would remain crucial for profitability in the current fiscal.

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, 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 improvement in the working capital utilisation during the last six months on account of part realisation of the advances extended to the overseas subsidiary (Dubai operations) and the low repayment liability in the near term.

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 to improve to 150 days on a sustained basis. Given the Negative outlook on the long-term ratings, an upgrade in the near term is unlikely.

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, its 100% subsidiaries Veto Electricals Private Limited (VEPL) and Veto Overseas Private FZE (VOP)

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 co-axial 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.

Key financial indicators (Audited)

	FY2018#	FY2019#
Operating Income (Rs. crore)	252.90	217.71
PAT (Rs. crore)	28.96	11.57
OPBDITA/ OI (%)	16.25%	9.35%
RoCE (%)	27.65%	10.29%
Total Outside Liabilities/Tangible Net Worth (times)	0.34x	0.30x
Total Debt/ OPBDITA (times)	0.92x	1.97x
Interest Coverage (times)	14.89x	5.23x
DSCR (times)	6.69x	2.82x

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 (FY2020) Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating November 4, 2019	Chronology of Rating History for the past 3 years: Date & Rating in FY2019 February 22, 2019	Date & Rating in FY2019 November 6, 2018	Date & Rating in FY2019 October 9, 2018
1	Cash Credit	Long Term	40.00	-	**[ICRA]BBB+ (Negative)**	**[ICRA]BBB+ (Negative)**	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB+ (Stable)**
2	Term Loan	Long Term	3.10	**2.98**	**[ICRA]BBB+ (Negative)**	**[ICRA]BBB+ (Negative)**	**[ICRA]BBB+ (Stable)**	**-**
3	Letter of Credit	Short Term	10.00	-	**[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+ (Negative)
NA	Term Loans	April 2018	-	March 2020	3.10	[ICRA]BBB+ (Negative)
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

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