

August 03, 2017

## Veto Switchgears and Cables Limited

### Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Fund-based – Cash Credit	35.00	[ICRA]BBB+ (Stable); Reaffirmed
<b>Total</b>	<b>35.00</b>	

\*Instrument details are provided in Annexure-1

### Rating action

ICRA has reaffirmed the long-term rating of [ICRA]BBB+ (pronounced ICRA triple B plus) on the Rs. 35.00 crore<sup>1</sup> fund based facilities of Veto Switchgears and Cables Limited (VSPL)<sup>2</sup>. The outlook on the long-term rating is 'stable'.

### Rationale

The rating reaffirmation takes into account VSPL's satisfactory operational as well as financial performance during FY2017 wherein it operating income increased by the 7% yoy growth while the operating margin declined to 13.9% from 17.8% largely due to the Employee Stock Option Compensation Expenses booked during the year. The total debt of the company declined from Rs 42.27 crore in FY2016 to Rs 30.90 crore in FY2017 despite the ongoing capital expenditure for the Jaipur corporate office. ICRA expects that the debt levels of the company are not likely to increase going forward as the envisaged internal accruals should be sufficient to meet the finding requirements.

The rating also factors in the experience of VSCL's promoters in the wires and cables business, its established brand name particularly in Rajasthan and its wide network comprising around 2500 dealers which ensures efficient sales and distribution. Also, presence of group companies in similar business boosts the company's bargaining power over its suppliers and its overall customer base. ICRA notes that VSCL has reported healthy operating profitability and has maintained conservative capital structure over the last few years with gearing of 0.34 times as on March 31, 2017.

The rating continues to be constrained by VSCL's moderate scale of operations and high competitive intensity and its high working capital intensity of operation on account of high inventory and receivables position. Historically the working capital requirements of the company have remained above its peers in the similar industry. The rating also factors in highly competitive nature of wires and cables business which leads to pricing pressure for all the industry participants and VSCL's exposure to volatility in the price of key raw materials, including copper.

Going forward, the ability of the company to build its brand further to help increase the scale of operations as well as profitability, while reducing its working capital intensity will remain key rating drivers for the company.

<sup>1</sup> 100 lakh = 1 crore = 10 million

<sup>2</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

## Key rating drivers

### Credit strengths

- **Experience of promoters in the wires and cables industry spanning over 20 years** - Incorporated in 2003 for the purpose of manufacturing of wires and cables, etc. The promoters are engaged in the business from more than 20 years. It manufactures wires and cables (industrial cables, stand cables, telephone and co-axial wires) and electrical accessories (general switches, modular switches, extension cord, isolator boxes and others) and is also engaged in the trading of products like ceiling fans, compact fluorescent lamps (CFL), LED lights and others. Also, presence of group companies in similar business boosts the company's bargaining power over its suppliers and its overall customer base
- **Well established brand with a wide distribution network of around 2500 dealers**- The Company has around 7 depots located in Delhi, Ghaziabad, Haridwar, Jaipur, Malad, Surat and Bhiwadi. Depot in one location caters to all the requirements of that particular region. The company sells its product majorly through dealers (around 2500) spread across India.
- **Continuous improvement in the capital structure in the last 3 years with gearing of 0.34 times in FY2017 as against 0.56 times in FY2016**- VSCL's capital structure remained healthy as on March 31, 2017 with overall gearing level of 0.34 time, which declined over the previous year owing to decline in the debt level.

### Credit weaknesses

- **Highly fragmented industry characterized by intense competition from large number of organized and unorganized players; product offering limited as compared to established players** - The company 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.
- **Vulnerability of profitability to any adverse fluctuation in raw material prices** - The Company receives order in the beginning of month based on which it purchases copper. The margins of the company are largely affected by the raw material price fluctuation which in turn affects the sales realisations. Any adverse movement in the price of raw materials could have an adverse impact on the company's margins, considering the limited ability to pass on the price hike owing to high competitive intensity. The price fluctuations also impact the realisations of the company.
- **High working capital intensity resulting from high inventory levels which impacts liquidity** - The Company sells its product majorly through dealers and extends credit of around 3 months to dealers for electrical accessories and of around 1 month for wires and cables. It maintains an inventory of about 2 months at any given time, to ensure uninterrupted production, thus pushing up the inventory-holding period and also exposing the company to the risk of inventory losses.
- **22% of networth extended as advances given to group companies; though company has started receiving dividends from overseas subsidiary** -As on 31st March, 2017, VSPL had extended loans and advances to its group entities totalling Rs. 19.46 crore.

**Analytical approach:** For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

### Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

### About the company

Veto Switchgears and Cables Limited was incorporated in June 2007 as a partnership firm in the name of 'Veto Industries'. Initially, the company was involved in the manufacturing of 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 name was changed to "Veto Switchgears and Cables Private Limited". The company was listed under 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, the company is engaged in the manufacturing of wires and cables (industrial cables, stand cables, telephone and co-axial wires) and electrical accessories (general switches, modular switches, extension cord, isolater boxes and others) and trading of ceiling fans, compact fluorescent lamps (CFL), LED lights and others. The company has a 60,000 sq. ft. manufacturing facility located at Haridwar, Uttarakhand, and an 11,000 sq. ft. manufacturing unit in Vasai (Maharashtra). The company is in the process of setting up its corporate office in Jaipur in a 6 storeyed building, which will also include an exclusive showroom for its 'Veto' brand.

### Key Financial Indicators

	FY2016	FY2017
Operating Income (Rs. crore)	112.09	120.34
PAT (Rs. crore)	7.66	12.19
OPBDIT/ OI (%)	17.75%	13.85%
RoCE (%)	13.38%	17.21%
Total Debt/ TNW (times)	0.56	0.34
Total Debt/ OPBDIT (times)	2.12	1.85
Interest coverage (times)	4.37	4.06
NWC/ OI (%)	81%	75%

*OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress);*

*NWC: Net Working Capital*

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for last three years:**
**Table:**

S. No.	Instrument	Current Rating (FY2018)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015	
					August 2017	August 2016	July 2015	May 2014	
1	Cash Credit	Long Term	35.00	<b>35.00</b>	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	

**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](http://www.icra.in)

**Annexure-1**  
**Instrument Details**

<b>ISIN No</b>	<b>Instrument</b>	<b>Date of Issuance / Sanction</b>	<b>Coupon Rate</b>	<b>Maturity Date</b>	<b>Amount Rated (Rs. crore)</b>	<b>Current Rating and Outlook</b>
	Cash Credit	-	-	-	35.00	[ICRA]BBB+ (Stable)

Source: the company

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