

## Veto Switchgears and Cables Limited

November 06, 2018

### Summary of rated instruments

| Instrument            | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action                |
|-----------------------|-----------------------------------|----------------------------------|------------------------------|
| Fund based limits     | 35.00                             | 43.10                            | [ICRA]BBB+(Stable); assigned |
| Non-Fund based limits | 0.00                              | 10.00                            | [ICRA]A2; assigned           |
| <b>Total</b>          | <b>35.00</b>                      | <b>53.10</b>                     |                              |

### Rating action

ICRA has assigned the long-term rating of [ICRA]BBB+ (pronounced ICRA triple B plus) for the Rs. 43.10-crore<sup>1</sup> (previously Rs. 35.00 crore) fund-based limits of Veto Switchgears and Cables Limited (VSCL)<sup>2</sup>. ICRA has also assigned short-term rating of [ICRA]A2 for the Rs. 10.00 crore (previously Nil) non-fund based limits of VSCL. The outlook on the long-term rating is Stable.

For arriving at the ratings, ICRA has combined the business and financial risk profiles of VSCL, Veto Electricals Private Limited (VEPL) and Veto Overseas Private F.Z.E (VOP) referred to as 'Group'. This is because VEPL and VOP are wholly owned subsidiaries of VSCL and are in similar line of business.

### Rationale

The ratings continue to factor in the experience of promoters in the wires and cables business, its established brand name particularly in Rajasthan and its wide network comprising around ~2500 dealers and 9 depots covering 8 states which ensures efficient sales and distribution network. Further, the group has been able to diversify its geographical presence in domestic as well as international markets by adding more depots in the states where it had no presence and by setting up wholly owned subsidiary in Dubai and in India to cater exports. Also, presence of group companies in similar business boosts the company's bargaining power over its suppliers and its overall customer base. ICRA also takes into account the equity infusion of Rs. 19.12 crore in FY2018 which has helped to reduce the gearing level to 0.25 times from 0.30 times in FY2017. The growth in group's scale of operations coupled with increase in operating margins has resulted in improvement of its debt protection metrics.

The ratings continue to be constrained by group's moderate scale of operations and high competitive intensity and its high working capital intensity of operations on account of high inventory and receivables position. Historically the working capital requirements of the group 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 group's exposure to volatility in the price of key raw materials, including copper.

Going forward, the ability of the group to increase the scale of operations as well as profitability, while reducing its working capital intensity will remain key rating drivers for the group. The infusion of the balance 75% convertible warrants amounting Rs. 55 crore shall also be a key monitorable.

<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

## Outlook: Stable

ICRA believes that group will continue to benefit from the extensive experience of the promoters. The outlook may be revised to Positive if the group is able to scale up its operations, improve its profitability and exhibit an efficient working capital management. The outlook may be revised to Negative if cash accruals are lower than expected, or if there is any major capital expenditure, or stretch in the working capital cycle weakens liquidity.

## 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 its subsidiaries in similar business boosts the group's bargaining power over its suppliers and its overall customer base.

**Well established brand with a wide distribution network of around ~2500 dealers**- The group has around 9 depots in India located across Delhi, Ghaziabad, Jaipur, Malad, Surat, Indore, Haridwar, Allahabad and Bhatinda. Depot in one location caters to all the requirements of that particular region. The group sells its product majorly through dealers (around 2500) spread across India.

**Strong financial profile** - The financial profile of the group continued to remain healthy in FY2018. With increased cash accruals, the group's capitalization and debt coverage indicators further strengthened and stood robust. Further, the networth of the group increased to Rs. 148.44 crore (previous year Rs. 101.46 crore) with healthy cash accruals coupled with infusion of Rs. 19.12 crore against convertible warrants issued by the group.

### Credit challenges

**Highly fragmented industry characterized by intense competition from large number of organized and unorganized players; product offering limited as 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.

**Vulnerability of profitability to any adverse fluctuation in raw material prices** - The group receives order in the beginning of month based on which it purchases copper. The margins of the group 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 group'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 group.

**High working capital intensity resulting from high inventory levels which impacts liquidity** - The group sells its products majorly through dealers and extends credit of around 3 months to dealers for electrical accessories and of around 1 month for wires and cables. However, the credit period generally gets extended to 120-140 days. 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 group to the risk of inventory losses.

**Analytical approach:** For arriving at the rating, ICRA has combined the business and financial risk profiles of VSCL, Veto Electricals Private Limited (VEPL) and Veto Overseas Private F.Z.E (VOP) referred to as 'Group'. This is because VEPL and VOP are wholly owned subsidiaries of VSCL and are in similar line of business.

**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).

## Group Profile

VOP was established in October 2015 and is a wholly owned subsidiary of VSCL in Dubai. The company is mainly engaged in trading of electrical goods like fans, sockets, fittings, fixtures, wires & cables etc. The company imports goods from China and sells to international markets such as Africa, Russia & Europe and the Gulf countries.

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 unit and currently exports Aluminum wires in the Middle East market.

## Key financial indicators (Audited)

|                              | FY2017 | FY2018 |
|------------------------------|--------|--------|
| Operating Income (Rs. crore) | 239.08 | 252.92 |
| PAT (Rs. crore)              | 18.33  | 28.96  |
| OPBDIT/OI (%)                | 10.65% | 16.26% |
| RoCE (%)                     | 21.26% | 27.66% |
| Total Debt/TNW (times)       | 0.30   | 0.25   |
| Total Debt/OPBDIT (times)    | 1.21   | 0.92   |
| Interest Coverage (times)    | 6.17   | 14.90  |

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

**Any other information: None**

## Rating history for last three years

|   | Current Rating (FY2018) |            |                          |                                | Chronology of Rating History for the past 3 years |                                      |                                     |                                     |
|---|-------------------------|------------|--------------------------|--------------------------------|---|--------------------------------------|-------------------------------------|-------------------------------------|
|   | Instrument              | Type       | Amount Rated (Rs. crore) | Amount Outstanding (Rs. crore) | Date & Rating in FY2019 November 2018             | Date & Rating in FY2019 October 2018 | Date & Rating in FY2018 August 2017 | Date & Rating in FY2017 August 2016 |
| 1 | Cash Credit             | Long Term  | 40.00                    | -                              | [ICRA]BBB+ (Stable)                               | [ICRA]BBB+ (Stable)                  | [ICRA]BBB+ (Stable)                 | [ICRA]BBB+ (Stable)                 |
| 2 | Term Loan               | Long Term  | 3.10                     | 3.10                           | [ICRA]BBB+ (Stable)                               | -                                    | -                                   | -                                   |
| 3 | Letter of Credit        | Short Term | 10.00                    | -                              | [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](http://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+(Stable)         |
| NA      | Term Loan        | April 2018                  | 9.55%       | March 2020    | 3.10                     | [ICRA]BBB+(Stable)         |
| NA      | Letter of Credit | -                           | -           | -             | 10.00                    | [ICRA]A2                   |

Source: VSCL

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