

Veto Switchgears and Cables Limited

February 22, 2019

Summary of Rated Instrument:

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based limits	43.10	43.10	[ICRA]BBB+(Negative) Reaffirmed; outlook revised to 'Negative' from 'Stable'
Non-Fund based limits	10.00	10.00	[ICRA]A2; reaffirmed
Total	53.10	53.10	

Rationale

ICRA has revised the outlook on its long term rating from 'Stable' to 'Negative' of Veto Switchgears and Cables Limited (VSCL) on account of subdued performance in Quarter 2 (Q2) and Quarter 3 (Q3) of FY2019 by the Group. The Group faced significant competition in its Wires & Cables business which impacted its revenues and profitability. As a result of competition there has been increase in inventory levels of the company. ICRA also notes that the utilization of working capital limits of the company has remained high in the last 6 months.

Outlook

ICRA believes that group might face further pressure on profitability and working capital position in next few quarters. The outlook may be revised to Stable if the group is able to scale up its operations, improve its profitability and exhibit an efficient working capital management. The rating might be downgraded if there is further pressure on operating margins thereby resulting in lower cash accruals 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.

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.

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. In the last few months the Group has piled up inventory levels which exposes the group to the risk of inventory losses.

Liquidity

Liquidity profile of the group stood moderate during FY2018 represented by current ratio of 3.30x (FY2017: 2.96x). The cash and bank balance as on March 31, 2018 stood at Rs. 5.00 crores and further the working capital utilization has been higher in the last 6 months period ended January 2019.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation	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.

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

The previous detailed rating rationale is available on the following link: [Click Here](#)

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years

Current Rating (FY2019)					Chronology of Rating History for the past 3 years			
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating February 2019	Date & Rating in FY2019	Date & Rating in FY2019		Date & Rating in FY2018
						October 2018	August 2017	
1	Cash Credit	Long Term	40.00	-	[ICRA]BBB+(Negative)	[ICRA]BBB+(Stable)	[ICRA]BBB+(Stable)	[ICRA]BBB+(Stable)
2	Term Loan	Long Term	3.10	3.10	[ICRA]BBB+(Negative)	[ICRA]BBB+(Stable)	-	-
3	Letter of Credit	Short Term	10.00	-	[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 Loan	April 2018	9.55%	March 2020	3.10	[ICRA]BBB+(Negative)
NA	Letter of Credit	-	-	-	10.00	[ICRA]A2

Source: VSCL

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