

March 28, 2022

Veto Switchgears and Cables Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based - Term Loans	3.10	0.00	-
Long-term Fund-based – Cash Credit	40.00	40.00	[ICRA]BBB+(Stable); reaffirmed
Short-term Non-fund Based – Working Capital Facilities	10.00	5.00	[ICRA]A2; reaffirmed
Total	53.10	45.00	

*Instrument details are provided in Annexure-1

Rationale

The reaffirmation of the ratings factors in Veto Switchgears and Cables Limited's (VSCL) moderate market position in the wires and cables business with major presence in Rajasthan and growing presence in other states with its ability to manufacture a wide range of products. VSCL's established brand presence, particularly in Rajasthan, and a wide network of dealers and distributors ensure efficient sales and distribution. Further, the Group has been able to deepen its geographical presence in the domestic market by adding more dealers in states where it had limited presence in the past. This apart, the company acquired over 95% equity stake in Vankon Modular Private Limited (VMPL) in FY2021 that has strengthened the Group's penetration in Uttar Pradesh, Delhi NCR, Rajasthan and Maharashtra while capitalising on the procurement and operational synergies. The ratings also factor in the healthy financial profile of the Group with a gearing of 0.2 times and total debt/OPBDITA of 1.3 times in H1 FY2022.

However, the ratings are constrained by the Group's moderate scale and working capital-intensive nature of operations on account of the high inventory and receivables position. The liquidation of the unsold finished goods of the Dubai operations would be crucial for profitability in the years to come. The Group had closed its Dubai business in FY2019 and had ~Rs. 30-crore unsold inventory as on September 30, 2021. The ratings also factor in the intensely competitive wires and cables business, which leads to pricing pressure for all industry participants. The Group's exposure to the volatility in the prices of key raw materials, including copper, is another credit challenge.

The Stable outlook on the [ICRA]BBB+ rating reflects ICRA's opinion that VSCL's operations, sales turnover and profitability would remain stable by virtue of its established presence in the business and a strong distribution channel.

Key rating drivers and their description

Credit strengths

Ability to manufacture wide range of products –VSCL was incorporated in 2007 to manufacture wires and cables. The company manufactures wires and 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 which are outsourced and produced in its own brand name.

Well-established brand with wide distribution network – The company has a wide distribution network in Rajasthan, Uttar Pradesh, Gujarat, etc. with around eight depots in India. The depot in each location caters to all the requirements of that

particular region. The Group sells its products through around 4,000 dealers (2,500 in VSCL and 1,500 in VMPL) across India under the brand name of Veto and Vimal Power. In February 2021, VSCL acquired a 95.5% stake in VMPL, which is in the same line of business. VMPL is present mainly in Delhi NCR, Uttar Pradesh, Rajasthan and Maharashtra and sells its products under the brand name of Vankon. With the takeover of VMPL, VSCL has got additional access to those markets where its presence was limited earlier.

Comfortable capital structure and coverage indicators – VSCL’s capital structure is comfortable due to its strong net worth and limited external debt. The interest coverage and DSCR were also comfortable at 8.3 times (12.7 times in FY2021) and 5.2 times (5.6 times in FY2021), respectively, in H1 FY2022. However, ICRA notes that the company’s operations are highly working capital-intensive in nature. Hence, the recent increase in commodity prices may limit the company’s operating profit. There may be incremental requirement of external debt in the form of working capital borrowings or unsecured loans which may negatively impact its debt coverage indicators.

Credit challenges

Intense competition from both large and unorganised 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, exerting pressure on its revenues and margins. Further, the company faces competition from peers and contract manufacturers for branded players.

High working capital intensity due to high inventory levels – VSCL’s working capital intensity has moderated from 93.8% in FY2021 to 77.8% in H1 FY2022. The working capital intensity remains significantly high due to the stretched receivables and high inventory levels. The Group sells its products mainly through dealers and distributors. It extends a credit period of around three months to dealers and around one month to distributors. However, the credit period generally extends to 140–160 days. As on March 31, 2020, March 31, 2021, and September 30, 2021, the Group had piled up inventory levels (primarily at its international unit), which exposes it to the risk of inventory losses. ICRA notes the Group’s revenue share from the Dubai unit has been declining (FY2018 to FY2021); however, it has a significant amount of stuck inventory with a high receivable position which shall remain a key monitorable by ICRA.

Liquidity position: Adequate

The company’s liquidity is adequate supported by free cash of ~Rs. 7.5 crore on a standalone basis. While the consolidated cash and bank balance was over Rs. 10.4 crore as on September 30, 2021, the ease of fungibility and repatriation of the same to different locations remains uncertain. The company has low debt repayments lined up over the medium term, which along with the limited planned capex, is expected to be comfortably met by the accruals.

Rating sensitivities

Positive factors – ICRA may upgrade the ratings if there is a sustained improvement in sales turnover and profitability margins coupled with the improvement in working capital management. Specific credit metrics that could lead to an upgrade include an improvement in both the debtor and inventory days to 150 days on a sustained basis.

Negative factors – ICRA could downgrade the ratings if there is a decline in profitability margins, or a deterioration in the working capital parameters, weakening the financial risk profile. Any large investment or loans and advances to related parties, which may have an adverse impact on the credit profile of VSCL, shall also remain a negative trigger.

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 profiles of VSCL and its subsidiaries - Veto Electricals Private Limited (VEPL), Veto Overseas Private FZE (VOP), Veto LED Lighting Private Limited (VLEPL) and Vankon Modular Private Limited.

About the company

VSCL was initially established as a partnership firm, named Veto Industries, involved in the 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. At present, it manufactures wires and cables (industrial cables, standard cables, telephone and coaxial 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 the trading of electrical goods like fans, sockets, fittings, fixtures, wires and cables, etc. The company's operations were suspended in FY2019. 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. VSCL has acquired VLEPL in FY2020 and is likely to commence commercial production of LED lights products in FY2023. In FY2021, VSCL acquired a 95.5% stake in Vankon Modular Private Limited, which is in the same line business, with market presence in Uttar Pradesh, Delhi NCR, Rajasthan and Maharashtra.

In FY2021, at a consolidated level, the company reported a net profit of Rs. 14.7 crore on an OI of Rs. 181.2 crore against a net profit of Rs. 9.3 crore on an OI of Rs. 150.2 crore in the previous year. It posted a net profit of Rs. 7.1 crore over an OI of Rs. 118.0 in H1 FY2022 and a net profit of Rs.15.3 crore on an OI of Rs. 189.7 crore in 9M FY2022.

Key financial indicators

	FY2020	FY2021	H1 FY2022
	Audited	Audited	Unaudited
Operating Income (Rs. crore)	150.2	181.2	118.0
PAT (Rs. crore)	9.3	14.7	7.1
OPBDIT/OI (%)	12.6%	13.0%	12.6%
RoCE (%)	8.7%	10.8%	11.5%
Total Outside Liabilities/Tangible Net Worth (times)	0.2	0.4	0.4
Total Debt/OPBDIT (times)*	1.4	1.5	1.3
Interest Coverage (times)	5.1	12.7	8.3

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); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year)

Source: Veto Switchgears and Cables Limited, ICRA Research

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)			Chronology of Rating History for the past 3 years					
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Dec 31, 2021 (Rs. crore)	Date & Rating on	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019		
						Mar 28, 2022	Dec 17, 2020	Nov 4, 2019	Feb 22, 2019	Nov 6, 2018
1	Term Loans	Long-term	-	-	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Stable)	-
2	Cash Credit	Long-term	40.00	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
3	Letter of Credit	Short-term	5.00	-	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Fund based- Term loan	Simple
Fund based- Cash Credit	Simple
Non-fund Based – Letter of Credit	Very Simple

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: 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	Long-term Fund-based – Cash Credit	NA	NA	NA	40.00	[ICRA]BBB+ (Stable)
NA	Short-term Non-fund Based – Letter of Credit	NA	NA	NA	5.00	[ICRA]A2

Source: Veto Switchgears and Cables Limited, ICRA research

Annexure-2: List of entities considered for consolidated analysis

Company	Ownership	Consolidation Approach
Veto Switchgears and Cables Limited	100.00% (rated entity)	Full Consolidation
Veto Electricals Private Limited	100.00%	Full Consolidation
Veto LED Lighting Private Limited	100.00%	Full Consolidation
Veto Overseas Private FZE	100.00%	Full Consolidation
Vankon Modular Private Limited	95.50%	Full Consolidation

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