February 02, 2023

Vashi Integrated Solutions Limited: Rating reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based - Cash credit	25.0	108.5	[ICRA]A (Stable); assigned/reaffirmed
Non Fund-Based Facilities	-	20.0	[ICRA]A (Stable); assigned
Fund based - Channel Financing	-	11.5	[ICRA]A (Stable); assigned
Total	**25.0**	**140.0**	

**Instrument details are provided in Annexure-1*

Rationale

ICRA's assigned rating for Vashi Integrated Solutions Limited (VISL) favourably factors in its strong market position in the distribution of electrical and automation products and its established relationship with reputed original equipment manufacturers (OEMs) like Siemens, Finolex, Polycab, Bonfiglioli, ABB, Legrand, Jinkosolar, Renewsys, etc., supported by the extensive experience of the promoters for over four decades in the industry. The rating also factors in a healthy financial risk profile marked by comfortable capital structure and debt protection metrics though the operating margin remains thin.

VISL's revenue grew at a CAGR of ~20% over FY2017-FY2022 as investment picked up in various end-user industries like residential and commercial real estate, data centres, pharma, renewable power, metals and the other broader manufacturing sector in the last two years. The addition of solar power related distribution franchise coupled with industry consolidation in favour of organised players in the wake of supply disruptions over the past few years also aided revenue growth. Going forward, the company is expected to witness a growth of ~10-15% over the medium term on the back healthy demand for its distributed products, supported by the Government's push towards manufacturing and infrastructure development, and maintain a healthy financial risk profile. VISL' top ten customers typically account for ~15% of the sales, implying a well-diversified customer base. The rating also considers the company's comfortable liquidity position with sizeable undrawn working capital limits, further supported by moderate repayment obligations in the near to medium term.

These strengths are partially offset by the high geographic concentration in revenue and the susceptibility to cyclicality in end-user industries. The rating also takes into consideration the high working capital-intensive nature of the firm's operations, amid elongated payment cycles from customers and high inventory holding requirements against a low creditor period, as prevalent in the distribution business. Further, its revenues are susceptible to the performance of its key principals with ~60% of its revenue being derived from distributing the products of the top 5 suppliers/OEMs.

The Stable outlook factors in the expectation that VISL will continue to grow its scale of operations while maintaining stable profitability and comfortable coverage metrics over the medium term.

Key rating drivers and their description

Credit strengths

Established relationships with reputed OEMs and healthy demand outlook - VISL is an authorised channel partner of over 25 leading industrial brands like Siemens, Finolex, Polycab, Bonfiglioli, ABB, Legrand, Jinkosolar, Renewsys, etc. All these OEMs have witnessed strong traction in sales post-Covid as investment picked up in various end-user industries like residential and commercial real estate, data centres, pharma, renewable power, metals, and the other broader manufacturing sector, giving a fillip to the capital goods sector. However, while the near-term outlook for the sector is positive as well, it remains susceptible to the cyclicity of the investment cycle of the various end-user industries. Over the years, the company has developed expertise in identifying and predicting goods required by different customer segments, and it carries an inventory of over Rs. ~100 crore, stocking over 100,000+ SKUs (stock keeping units).

Comfortable coverage and capitalisation indicators - VISL's interest cover (including interest on debt from related parties) has remained healthy, in the range of ~2.3-4.6 times between FY2017 and FY2022, with gearing remaining below 1 times. In FY2022, the company reported interest coverage of 4.6 times and net cash accruals/debt of ~26%, benefitting from a gradual reduction in working capital debt and improvement in OPBIDTA over the past five years. The company's consolidated debt/TNW and debt/OPBITDA remained healthy and improved to 0.63 times and 2.48 times, respectively, in FY2022 (PY: 0.71 times and 3.52 times, respectively). The external debt/TNW and external debt/OPBIDTA also improved to 0.38 times and 1.44 times, respectively, in FY2022 (PY: 0.40 times and 1.93 times, respectively).

VISL's interest cover is expected to be over 5 times over the medium term with expansion in operating profiles. The DSCR may moderate during FY2023-2024 to ~2.4-3 times with repayments starting for the ECLGS loans that had moratorium till FY2022. At a standalone level, investment in JVs/subsidiaries/partnerships stood at Rs. 10.85 crore as on March 31, 2022. Further, Techno Products Development Pvt Ltd (51% subsidiary) and VISL have a clause collateral clause in their terms of sanctioned limits with HDFC Bank.

Diversified client base - VISL' top ten customers typically account for ~15% of the sales. Hence, the customer risk is well-diversified. With focus on client selection and their due diligence, the incidence of debtor write-offs/provisions has remained low till now despite high debtor days. Further, the clients are reasonably well-diversified across various end-user segments like solar EPC players, machine manufacturers, electrical panel integrators, construction/MEP contractors, retailers, end users, etc.

Credit challenges

Limited bargaining power with suppliers; highly fragmented industry – VISL commands a strong market position near the Bhiwandi region but faces higher competitive intensity from regional players in other industrial clusters, for each of its major product segments. The company largely procures its raw material from a few large OEMs, thus posing supplier concentration risk and resulting in low bargaining power, although its established relationship with the suppliers provides comfort. Despite the high competition, VISL has been focusing on expanding the scale of operations by adding new territories and product segments to diversify from its core operating location of Bhiwandi. While VISL's ROCE improved to 16.1% in FY2022 (11.1% in FY2021 and 13.2% in FY2020) due to a significant improvement in the scale of operations and working capital cycle, the scope for further improvement is limited given the trading nature of the business. Further, the sustainability of the RoCE over 15% is yet to be established and is a key monitorable.

Exposure to geographical concentration risks - The rating is constrained by the limited diversification of VISL's revenue streams as it derives a significant proportion of its revenues from near the Bhiwandi industrial cluster, from MEP (mechanical, electrical and plumbing) contractors for construction projects, solar EPC contractors and electrical panel manufacturers, which exposes it to geographical concentration risk. However, the firm is gradually diversifying its geographical presence and adding more products, like solar-related offerings, in the recent past.

High working capital intensity from elongated receivable cycle and high inventories - VISL's working capital intensity remains high owing to its elongated receivable cycle emanating from the extended credit periods (60-90 days typically, which can extend further) being offered to customers, and the high inventories being stocked for prompt customer service. ICRA notes that the company's debtors of more than 90 days outstanding are substantial at ~25% typically even as the credit terms are for 30-90 days, while it maintains ~45-60 days of inventories, exposing it to significant debtor provisioning and inventory obsolescence risks. As on September 30, 2022, the company's receivables over 180 days was around Rs. 15.36 crore spread across multiple customers; any large write-off could negatively impact the profitability and coverage metrices.

Further, the credit period availed from suppliers is low due to the company's strategy to avail higher discounts on purchases for upfront payments to suppliers. Consequently, the net working capital (NWC)/operating income (OI) has been high at ~30%

for FY2022, although it improved from ~40% in both FY2021 and FY2020 due to the overall improvement in the working capital cycle and significant improvement in operating income.

Liquidity position: Adequate

The company had Rs 2.21 crore of unencumbered cash balances as on March 31, 2022, apart from investments in mutual funds of Rs 0.24 crore. VISL's cash flow from operations has remained low and volatile due to continued investments in working capital, given the thin operating profits and strong revenue growth. However, VISL's fund-based limit utilisation remained moderate at Rs. 43.54 crore as of October 2022 (~50% of sanctioned limits of Rs. 86 crore). It's average cushion in total sanctioned limits ranged around 50-55% in the last 18 months, which lends comfort to the overall liquidity profile. Further, after factoring in moderate ECLGS term loan repayment commitments of Rs ~4-6 crore annually and routine capex of Rs ~4-6 crore as well to be incurred over FY2023-FY2025, the liquidity remains adequate, considering the cushion in working capital limits and the relatively high cushion in drawing power.

Rating sensitivities

Positive factors – ICRA may upgrade the rating if there is an improvement in its scale of operations, profitability and working capital cycle, leading to a reduction in debt levels and improvement in coverage indicators. A specific trigger for an upgrade would be an interest cover of 6.0 times on a sustained basis.

Negative factors – Pressure on the rating may arise if an elongation in the working capital cycle adversely impacts the liquidity position of the company. Any reduction in the absolute profit, leading to an interest cover below 5.0 times on a sustained basis, could lead to a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	NA
Consolidation/Standalone	For arriving at the rating, ICRA has considered the consolidated financials of VISL. List of companies given in Annexure-2.

About the company

VISL deals in the trading of electrical power distribution components like switchgears, gearboxes, terminal blocks, meters, drives, motors, automation components like PLCs and VFDs, and wiring accessories. It also offers solar panels, inverters, and other components to solar EPC players. It has established relationship with various capital goods OEMs like Siemens, ABB, Polycab, Philips, SKF, Finolex, Hindustan Motors, Castrol, SMC, Unistar, Panasonic, Omron, Bonfigioli, etc. VISL is the authorised distribution partner for theses OEMs. VISL was set up by the Dodeja brothers in 1978 as a partnership firm, which got reconstituted as a private limited company in 1991. VSIL stocks various SKUs across its warehouses and is ISO 140001 certified. The Vashi Group employs over 1,000 people (~750 in VISL, ~250 in JVs and partnership firms).

Key financial indicators (audited)

Consolidated	FY2021	FY2022
Operating income (Rs. crore)	675.5	972.4
PAT (Rs. crore)	18.6	31.1
ROCE (%)	10.4%	16.1%
OPBDIT/OI (%)	5.5%	5.6%
PAT/OI (%)	2.8%	3.2%
Total outside liabilities/Tangible net worth (times)	1.1	1.0
Total debt/OPBDIT (times)	3.5	2.5
Interest coverage (times)	3.9	4.6

Source: Company, ICRA Research

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)					Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding* (Rs. crore)	Date & rating on		Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Feb 02, 2023	Jan 03, 2023	-	-	-
1	**Fund-based cash credit**	Long Term	108.5	-	[ICRA]A (Stable)	[ICRA]A (Stable)	-	-	-
2	**Non Fund-Based Facilities**	Long Term	20.0	-	[ICRA]A (Stable)	-	-	-	-
3	**Fund based - Channel Financing**	Long Term	11.5	-	[ICRA]A (Stable)	-	-	-	-

**As on Dec 31, 2022*

Complexity level of the rated instrument

Instrument	Complexity Indicator
Fund-based cash credit	Simple
Non Fund-Based Facilities	Very Simple
Fund based - Channel Financing	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: Click Here

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	**Fund-based cash credit**	NA	NA	NA	108.5	[ICRA]A (Stable)
NA	**Non Fund-Based Facilities**	NA	NA	NA	20.0	[ICRA]A (Stable)
NA	**Channel Financing**	NA	NA	NA	11.5	[ICRA]A (Stable)

Source: *Company*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis:

Company Name	IHEL Ownership	Consolidation Approach
Techno Products Development Pvt Ltd	51.00%	Full Consolidation
Midex Vashi Marketing Pvt Ltd	51.00%	Full Consolidation

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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