February 21, 2024

Velocis Systems Pvt. Limited: Ratings upgraded; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Limits/ Cash Credit	45.00	75.00	[ICRA]A- (Stable); Upgraded from [ICRA]BBB+ (Stable)/ assigned for enhanced amount
Non-fund Based Limits	55.00	90.00	[ICRA]A2+; Upgraded from [ICRA]A2/ assigned for enhanced amount
Total	**100.00**	**165.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating upgrade for Velocis Systems Pvt. Limited (VSPL) factors the significant increase in company's scale which is expected to sustain on account of buoyant demand outlook. In FY2023, VSPL achieved a robust ~60% growth in revenues and improvement in its operating profit, after facing a challenging previous fiscal wherein revenues and margins had been under pressure. In the current fiscal as well, a healthy order book and normalising lead times have supported its earnings which is expected to continue further. This apart, ratings upgrade favourably factor in the company's pan India presence, and diversified and reputed client base, which is expected to help continue repeat businesses with clients. ICRA also draws comfort from the significant experience of VSPL's promoters and its established track record in the IT industry, coupled with its healthy relationships with customers and suppliers, particularly CISCO Systems.

However, the ratings are constrained by VSPL's modest margin profile, which is inherent in the industry, however, the same has improved in the recent past owing to operating leverage benefits and better product mix. In addition, the ratings are constrained by the working capital intensive nature of the business, which results in dependence on external funding. While the gearing and coverage have moderated, the interest cover and DSCR are expected to be healthy going forward. The company also remains exposed to competition from other players.

The Stable outlook on the [ICRA]A- rating reflects ICRA's opinion that VSPL will continue to benefit from its established relationships with OEMs particularly CISCO and distributors, along with its healthy revenue visibility on the back of buoyant demand of networking infrastructure.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in the IT industry – The company has a successful track record of more than two decades. Established in 1995, it benefits from its long-standing relationships with Original Equipment Manufacturers (OEMs) such as CISCO, HP and Dell, Palo Alto, AWS, and Microsoft. VSPL has been associated with CISCO since 2006, given the OEM's market leadership in network infrastructure equipment.

Strong order book leading to healthy revenue visibility – VSPL has a strong order book of ~Rs. 550 crore (as of December 2023), which provides healthy revenue visibility over the near to medium term. Demand scenario for networking infrastructure is buoyant. In the previous fiscals, the pace of order execution was impacted by significant increase in the lead times of its key suppliers due to semiconductor shortage issues. However, with normalising lead times, VSPL has been witnessing healthy execution and order book build up. In 9M FY2024, the company booked sales of Rs. 1,035 crore over Rs. 1,061 crore in FY2023 and Rs. 664 crore in FY2022. The company's ability to sustain the pace of revenue booking is a key rating monitorable.

Pan India presence and diversified client base – The company caters to the demand across India, through its offices at eight cities and a branch in Singapore. VSPL has been able to successfully increase its clientele and order flow over the years. It has more than 500 customers from both the public as well as the private sectors. A strong market position of its key OEMs also enables VSPL to garner reputed clients.

Improving profitability and liquidity profile – VSPL's business is inherently a modest margin business, given the limited value addition in the nature of its operations. However, it has witnessed improving profitability levels reflecting in an OPM of 4.6% in H1 FY2024 over 3.8% in FY2023, which is largely due to operating leverage benefits as its scale has grown significantly since FY2022. Moreover, the company has adequate liquidity, supported by healthy free cash balances that are further aided by a comfortable cushion in its working capital limits as well as discounting facility available from its key OEM.

Credit challenges

Woking capital-intensive operations– VSPL's business is working capital intensive in nature with a moderately high debtors' cycle. Generally, in this industry, the inventory and receivables are funded by creditors. For VSPL, the funding is largely through interest-free credit extended by CISCO-backed bill discounting, working capital debt and credit period extended by other suppliers.

Competitive intensity of business – In the system integration business, the competitive intensity remains high, particularly in the segment where VSPL operates. Even in VSPL's other businesses, the competition is high, resulting in variability of business and profitability.

Dependence on working capital debt and supplier funding – The working capital intensive nature of VSPL's operations keep it dependent on external funding. Thus, in line with the business scale up, VSPL's debt levels have been rising. Moreover, buyback over FY2022 and FY2023 has constrained the growth in its Tangible Net Worth (TNW). Therefore, the TD/OPBDITA and TOL/TNW levels were elevated at 5.9 times and 4.3 times as on March 31, 2023, respectively. However, both these ratios improved to 3.6 times and 3.9 times as on September 30, 2023, respectively, on the back of further improvement in profitability and relatively lower utilisation of CISCO-backed lines than March 31, 2023. ICRA notes the presence of unearned revenues, which are part of the company's current liabilities and contribute to its Total Outside Liabilities (TOL). Nevertheless, VSPL's interest coverage ratio and Debt Service Coverage Ratio (DSCR) remain comfortable at 12.3 times and 10.2 times respectively, as on September 30, 2023. Improvement in leverage metrics in line with earnings growth remains crucial, going forward.

Liquidity position: Adequate

VSPL has **adequate** liquidity with healthy unencumbered cash surplus of ~Rs. 62.7 crore (as on September 30, 2023), against ~Rs 39.6 crore of free cash in March 2023. The company also has encumbered cash of ~Rs. 87 crore (as of September 2023). Of the encumbered cash of Rs. 86.56 crore (as on September 30, 2023), ~Rs. 32 crore is lien marked as a collateral, while overdraft is availed against Rs. 50 crore of Fixed Deposits (FDs) with the remaining amount provided as a cash margin for the bank guarantee limits. The liquidity is further aided by the cushion in working capital limits against drawing power, which stood at ~Rs. 49 crore as on November 2023. The company had an average utilisation of ~52% in the last 12 months ending in November 2023, providing sufficient cushion for liquidity. The capex requirements too are nominal, given the company's limited capex intensive operations.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if VSPL demonstrates a sustained improvement in revenues and profitability, leading to an improvement in credit metrics and liquidity.

Negative factors – ICRA could downgrade the ratings in case of a sustained decline in revenue and profitability leading to a reduction in cash accruals. The ratings may also be downgraded if weakening of working capital intensity results in a weakened liquidity position, or the interest coverage ratio falls lower than 5.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology]
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

Velocis Systems Private Limited was incorporated in 1995 by Mr. Atul Bansal and Mr. Rishi Kumar Malhotra. Its registered office is in Okhla Industrial Area, New Delhi. The company is involved in three different businesses, i.e., system integration services (hardware trading), information technology (IT) solutions and software services, as well as managed services. VSPL's technology partners include CISCO, HP, Dell, Acer, Palo Alto, AWS, and Microsoft, etc. Its clientele includes reputed names such as L&T, DBS Bank, Amazon, the Tata Group, Aditya Birla etc. VSPL caters to the demand across the country, from its offices in Noida, New Delhi, Gurugram, Ahmedabad, Mumbai, Chennai, Bengaluru and Pune.

Key financial indicators (audited/provisional)

VSPL Consolidated	FY2022	FY2023	H1 FY2024*
Operating income	664.2	1,061.4	718.7
PAT	13.9	32.3	25.4
OPBDIT/OI	2.7%	3.8%	4.6%
PAT/OI	2.1%	3.0%	3.5%
Total outside liabilities/Tangible net worth (times)	2.5	4.3	3.9
Total debt/OPBDIT (times)	3.7	5.9	3.6
Interest coverage (times)	7.0	11.1	12.3

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; *Provisional*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Sep 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Feb 21, 2024	Dec 05, 2022	Sep 30, 2021	Sep 03, 2020
1	**Fund-based Limits/ Cash Credit**	Long term	75.00	--	[ICRA]A- (Stable)	[ICRA]BBB+(Stable)	[ICRA]BBB+(Stable)	[ICRA]BBB+(Stable)
2	**Non-fund Based Limits**	Short term	90.00	--	[ICRA]A2+	[ICRA]A2	[ICRA]A2	[ICRA]A2
3	**Unallocated**	Long term/Short term	--	--	--	-	-	[ICRA]BBB+(Stable) /[ICRA]A2

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based Limits/ Cash Credit	Simple
Non-fund Based Limits	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: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Fund-based Limits/ Cash Credit**	NA	NA	NA	75.00	[ICRA]A- (Stable)
NA	**Non-fund Based Limits**	NA	NA	NA	90.00	[ICRA]A2+

Source: Company

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

Annexure II: List of entities considered for consolidated analysis – Not applicable

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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.

For more information, visit www.icra.in

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