Press Release

V-Marc India Limited

May 30, 2022

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	43.30	IVR BBB-/Positive (IVR Triple B Minus with Positive Outlook)	Assigned	Simple
Short Term Bank Facilities	23.00	IVR A3 (IVR A Three)	Assigned	Simple
Long Term /Short Term Bank Facilities	0.70	IVR BBB-/Positive/ IVR A3 (IVR Triple B Minus with Positive Outlook / IVR A Three)	Assigned	Simple
Total	**67.00 (Sixty seven crore only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of V-Marc India Limited (VIL) derives strength from its long track record of operations under experienced promoters, pan India presence with diversified dealer network, its reputed clientele base and revenue visibility backed by its healthy order book. The ratings also favourably factor its stable financial performance with improvement in profitability in past two fiscals ended in FY22 and its comfortable capital structure. However, these rating strengths are constrained due to susceptibility of its profitability to fluctuation in input prices, on-going capex leading to project stabilisation risk, elongated operating cycle and intense competition in the industry.

Key Rating Sensitivities:

Upward Factors

- Growth in scale of operations with continuous inflow of orders and improvement in profitability leading to improvement in cash accruals on a sustained basis.
- Sustenance of the capital structure with TOL/TNW to remain below 2x and improvement in debt protection metrics with interest coverage ratio remained over 3x on a sustained basis.

- Improvement in liquidity with improvement in the operating cycle and improvement in average working capital utilisation

Downward Factors

- Moderation in the scale of operations and/or deterioration in profit margin impacting the liquidity and debt coverage indicators.
- Moderation in the capital structure with overall gearing moderated to more than 1.5x and/or moderation in interest coverage to below 2x
- Elongation in operating cycle leading to deterioration in the liquidity position

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced promoters with long track record of operation in wires and cables industry**

Mr. Vikas Garg has about 23 years of experience in the business of wires & cables since 1996 in trading of wires and cables. He started the business as partnership and gradually converted into listed company. Mrs. Meenakshi Garg also has an experience of more than 14 years of trading business of wires and cables. Also, the higher management of the company is highly experienced with relevant background.

- **Pan India presence with sound dealer network**

The company's dealer network is present in 19 states across India with 600 dealers. Also, the company is an authorised dealer for various Discoms.

- **Healthy order book position providing revenue visibility**

VIL's unexecuted order book position as on February 28, 2022, stood at Rs.132.70 crore which is to execute in next one year indicating a healthy revenue visibility. The total work order includes ~46% from state electricity boards, EPC turnkey contractor purchase order ~16%, sale to authorised channel partner and company depo in various states.

- **Reputed clientele with low counter party payment risk**

VIL has a diversified client base comprising various government discoms, departments and reputed private players. Some of the reputed clientele of the company include Uttarakhand Power Corporation Limited (UPCL), Chhattisgarh State Renewable Energy Development Agency (CREDA), Punjab State Power Corporation Limited, Paschimanchal Vidyut Vitran

Nigam Limited, Haryana Vidyut Prasaran Nigam Limited, Some of the renowned steel plants like Bokaro Steel Plant, Durgapur steel plant, Rourkela Steel plant, IISCO Steel Plant Burnpur, Salem, SAIL etc. The repeat orders received from its clientele validates its capabilities. Inspite of possessing low bargaining power with its customers, its clientele base has sound credit risk profile, which does reduce the counter party payment risk to a certain extent.

- **Stable financial performance with improvement in profitability**

The financial performance of the company remained stable over the past three fiscals despite moderation in its topline in FY20. The total operating income declined from Rs.204.95 crore in FY19 to Rs.171.21 crore in FY20 mainly due to decrease in sales in from Government companies owing to the outbreak of COVID-19 pandemic. Since maximum sales is booked in last quarter especially in the month of March, execution of contracts on account of lockdown restrictions arising out of COVID 19 pandemic. During FY21, the company witnessed marginal growth of ~2% with the increase in orders. Further, the company has estimated to achieve a revenue of Rs.181 crore in FY22. In spite of moderation in top line, EBITDA margin improved to 8.38% in FY21 from 6.37% in FY19 (7.88% in FY20). Further, GCA also improved to Rs.7.74 crore in FY21 from Rs.5.98 crore in FY19 (Rs. 5.91 crore in FY20) due to increase in PAT. During FY22, the profitability and cash accruals of the company has also improved with rise in absolute EBITDA.

- **Comfortable capital Structure**

The overall gearing ratio remained comfortable and improved marginally to 1.17x as on March 31, 2021, from 1.22x as on March 31, 2019 (1.27x in FY20) due to accretion of profit to net worth. TOL/TNW also remained satisfactory at 2.13x as on March 31,2021. The overall gearing ratio and TOL/TNW estimated further to improve as on March 31,2022.

Key Rating Weaknesses

- **Susceptibility of operating margin to fluctuations input prices**

VIL's operating margin is susceptible to volatility in its input prices especially aluminium. The company procures raw material from majors like NALCO, Hindalco along with various traders. Any upward movements in the prices of aluminium, the primary raw material used in the manufacture of cables and conductors can have an adverse effect on the profit margins.

- **Ongoing capex leading to project stabilization risk**

The company is setting up new facility to manufacture Electrical Wires produced by GAS Cured CCV technology and increase the installed capacity to 75120 km p.a. which will produce 66KV underground wires. The cost of project for setting up of proposed manufacturing unit is estimated at Rs.40.92 crore, which is proposed to be funded through Bank's Term Loan of Rs.21.65 crore, Rs.15.00 crore as equity and remaining Rs.4.27 crore from its internal accruals or to be infused as equity for setting up of proposed unit. The project is running as per schedule and is expected to start operation from last-half of September 2022.

- **Stretched operating cycle with elongated receivable**

The receivable cycle of VIL increased to 96 days in FY21 form 46 days in FY19 (86 days in FY20), on account of elongated payment cycle from government companies due to the impact of pandemic, which is generally released in the month of March which was impacted by lockdown. The working capital cycle increased to 121 days in FY21 from 84 days in FY19 (111 days in FY20) as the order could not be executed due to the restrictions from government companies for Covid 19. Average creditor period also increased to 91 days in FY21 from 23 days in FY19 (71 days in FY20) accordingly to match the cash flow of the company.

- **Exposure to intense competition; leading to range-bound margins**

The industry is characterized by high fragmentation with large number of unorganised players, constraining the pricing power of organised sector players. Apart from the unorganized sector, VIL also faces competition from the organized sector players. The EBITDA margins have remained range-bound between 8-9 % over the last few years given the intense competition and fragmentation in the industry.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing companies

Financial Ratios & Interpretation (Non- Financial Sector)

Liquidity – Adequate

Liquidity position of VIL remain adequate characterized by expected sufficient cushion in cash accruals of Rs.14.70 crore and Rs.34.27 crore in FY23 and FY24 respectively vis-à-vis its repayment obligations of about Rs.1.08 crore in FY23 and Rs.2.73 crore in FY24. However, the fund based and non-fund based bank limits remain utilized ~95% and ~92% respectively during the past 12 months ended March 2022 indicating a limited liquidity buffer.

About the Company

V-Marc India Limited (VIL) was originally formed in 1996 as a partnership firm carrying on its business under the name & style of "Asian Wires & Cables Industries manufacturing and marketing firm dealing in electrical wires & cables for modern needs with brand name "V-Marc". The partnership business was then converted into private limited by the name Asian Galaxy Private Limited (AGPL) incorporation date being 04.03.2014 with the partners becoming the directors. The existing company was then converted into limited company by the name V Marc India Limited in 2021 and got listed on NSE on April 09, 2021. Presently the company is engaged in manufacturing and distribution of HT/LT cables and housing wire to discoms, PSUs, EPC contractors and dealers. The company got listed in NSE SME exchange in April 2021. The company has used its IPO proceeds for funding its ongoing capex.

Financials (Standalone):

(Rs. crore)

For the year ended* / As on	31.03.2020	31.03.2021
	Audited	Audited
Total Income	171.64	175.50
EBIDTA	13.48	14.68
PAT	4.92	5.79
Total Debt	44.81	49.13
Tangible Net Worth	35.15	41.84
EBDITA Margin (%)	7.88	8.38
PAT Margin (%)	2.87	3.30
Overall Gearing Ratio (x)	1.27	1.17

**Classification as per Infomerics' standards*

Status of non-cooperation with previous CRA : Nil

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2022-23)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20
1.	Term Loan	Long Term	12.80	IVR BBB-/Positive	-	-	-
2.	Cash Credit	Long Term	30.50	IVR BBB-/Positive	-	-	-
3.	Bank Guarantee	Short Term	14.00	IVR A3	-	-	-
4.	Letter of Credit	Short Term	9.00	IVR A3	-	-	-
5.	Unallocated	Long Term/ Short Term	0.70	IVR BBB-/Positive/ IVR A3	-	-	-

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About Infomerics:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

For more information visit www.infomerics.com

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Term Loan	-	-	March 2029	12.80	IVR BBB-/Positive
Cash Credit	-	-	-	30.50	IVR BBB-/Positive
Bank Guarantee	-	-	-	14.00	IVR A3
Letter of Credit	-	-	-	9.00	IVR A3
Unallocated	-	-	-	0.70	IVR BBB-/Positive/ IVR A3

Annexure 2: List of companies considered for consolidated analysis: Not Applicable.

Annexure 3: Facility wise lender details:
https://www.infomerics.com/admin/prfiles/Len-VMarc-May22.pdf

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.