Vikas Ecotech Limited (VEL)

September 13, 2022

Rating

Sr. No.	Instrument/ Facility	Amount (INR Crore)	Rating Assigned	Rating Action	[Complexity Indicator]()
1	Long Term Bank Facilities	60.80	IVR BB-/ Stable [IVR Double B minus with Stable Outlook]	Assigned	Simple
2	Short Term Bank Facilities	26.50	IVR A4 [IVR A Four]	Assigned	Simple
	Total	**87.30**			

Details of facilities are in Annexure 1

Rating Rationale

The ratings assigned to the bank facilities of Vikas Ecotech Limited derive strength from experienced management, improved scale of operation, moderate profitability and capital structure and healthy order book. The rating is however constrained by instances of continuous overdrawing in working capital facility in the past, moderate debt protection metrics, elongated operating cycle, customer concentration risk and raw material price fluctuation risk.

Key Rating Sensitivities:

➢ **Upward Rating Factor:**

- Significant growth in scale of business with further improvement in profitability metrics thereby leading to overall improvement in cash accruals and liquidity.
- Improvement in the capital structure with further improvement in debt protection metrics.

➢ **Downward Rating Factor:**

- Dip in operating income and/or profitability thereby impacting the debt coverage indicators and/or any deterioration in the financial risk profile.

- Any further significant rise in working capital intensity or unplanned capex leading to a further deterioration in the liquidity position

Detailed Description of Key Rating Drivers

Key Rating Strengths

Experienced Management: The company has an experienced management team with decades of experience in the same line of business. Managing director of the company Mr. Vikas Garg has more than 2 decades of experience in the same line of business activity. Mr. Vivek Garg has 18 years+ experience in the field of Chemical and Petrochemicals Products.

Improved scale of operation and moderate profitability: TOI of the company has increased by 115.56% to Rs. 250.42 crore for FY22 compared to Rs.116.17 crore in FY21. The increase in the revenue is majorly due to higher income of Rs.105 crore earned from trading of TMT bars in FY22 as well as significant increase in service income from Rs. 0.59 crore in FY21 to Rs. 21.45 core in FY22. EBITDA margin of the company has improved to 9.20% for FY22 compared to 3.87% in FY21 due to increase in the other operating income which include consultancy fee for export liaison and commission charged. PAT margin of the company has improved from net loss in FY21 to 0.55% in FY22 however it remains on the lower side due to high interest cost. The company has earned GCA of Rs.5.11 crore in FY22 as against cash loss in FY21.

The company has reported TOI of Rs. 89.14 Crore in Q1FY23 as compared to Rs.18.16 crore in Q1FY22. EBITDA margin of the company has improved from operating loss in Q1FY22 to 5.68% in Q1FY23. Similarly PAT margin has improved from net loss in Q1FY22 to 1.64% in Q1 FY23.

Moderate capital structure: The capital structure of the Company remained moderate marked by overall gearing of 0.41x as on March 31, 2022, improved from 1.19x as on March 31, 2021 mainly on the back of equity infusion of Rs.97.49 crore in FY22 as well as also due to accretion of profits to reserves and decline in debt. TOL/TNW of the company also improved to 0.52x as on March 31, 2022, compared to 1.55x as on March 31, 2021. Tangible Net worth of the company has improved from Rs. 127.04 crores as on March 31, 2021, to Rs. 226.44 crore as on March 31, 2022.

Healthy Order Book: The company has outstanding order book of Rs. 210.00 Crore as on August 01, 2022. These all are back-to-back orders from the clients supplied on the monthly basis.

Key Rating Weaknesses

Instances of continuous overdrawing in working capital facility in the past: There were instances of over utilization of CC limit in the past which happened due to crystallization of PCFC (Pre-shipment) limit as there was no export during Covid -19 while the bank debited CC limit to settle outstanding amount in PCFC limit and the same led to continuous overdrawing in CC account . However, as confirmed by the banker, the account has been classified as standard since March, 2022.

Moderate Debt protection metrics: DSCR of the company remained below unity for FY22 at 0.93x as against 0.40x in FY21 due to high interest cost. However, ISCR of the company has improved from 0.25x in FY21 to 1.21x in FY22, majorly due to increase in the operating profitability of the company. Total Debt/GCA improved to 18.18x in FY22 due to cash profits earned in FY22 as against cash losses incurred in FY21.

Elongated operating cycle: The operating cycle of the company remained high at 260 days for FY22 due to high collection and inventory period of the company, however it has improved in FY22 as compared to 542 days in FY21.

Customer Concentration Risk: : Topmost customer of the company contributes for ~45% of the revenue of the company for FY22 which indicates customer concentration risk.

Raw Material price Fluctuation Risk: The company's profitability is susceptible to raw material price fluctuation risk owing to uncertainty of supply-demand in the market. The price of the raw material remain volatile as the same are linked to the prices of crude oil as most of the raw material of the company are directly or indirectly derived from petrochemicals.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

[Financial Ratios & Interpretation (Non-Financial Sector)]

[Criteria of assigning Rating Outlook.]

Liquidity: Adequate

The liquidity position of the company is adequate as cash accruals are expected to remain sufficient to meet the debt repayment obligations. The average utilisation of the fund-based limits remained high at 101.82% during the last 12 months ended July 2022. However, the company was over utilizing its limit till December 2021 on account of which the company's account was declared NPA by Punjab National Bank. From past 5 months there were no instances of overdrawing for more than 30 days in the account and average 6 months utilization of fund-based limits ending July 2022 stands high at 92.08%. Further, the overdrawings since March 2022 have been regularised by the company within 4 days time. The current ratio stood at 2.38 times as on 31st March 2022. The unencumbered cash and bank balances remained at Rs. 2.80 crores as on 31st March 2022 which increased from Rs. 0.32 crore as on March 31, 2021. Operating cycle of the company has improved in FY22 to 260 days from 542 days in FY21due to decrease in the inventory and collection period of the company with an increase in scale of operations.

About the Company

Vikas Ecotech Limited (VEL) was formerly known as Vikas Profin Limited. VEL is engaged in the business of manufacturing and distribution of specialty polymers compounds and additives. VEL commenced its business with the trading of chemicals and polymers compounds. The company's manufacturing facilities are located at Alwar, Shahjahanpur, Rajasthan, and another manufacturing unit in Noida (SEZ). The company was incorporated in 1984 and has its registered office located in Delhi. The company is listed on the National Stock Exchange (NSE) and Bombay stock exchange (BSE).

Financials (Standalone) **INR in Crore**

For the year ended* As on	31-03-2021	31-03-2022

	Audited	Audited
Total Operating Income	116.17	250.42
EBITDA	4.49	23.05
PAT	-14.35	1.39
Total Debt	151.33	92.95
Tangible Net Worth	127.04	226.44
EBITDA Margin (%)	3.87	9.21
PAT Margin (%)	-11.89	0.55
Overall Gearing Ratio (x)	1.19	0.41

**Classification as per Infomerics' standards*

Details of Non-Co-operation with any other CRA: The ratings of Vikas Ecotech Ltd have been moved to INC category by Brickwork as per Press Release dated December 28, 2021, due to unavailability of information.

Any other information: Not Applicable

Rating History for last three years:

Name of the Facility/ Instrument	Current Rating (Year: 2022-23)			Rating History for the past 3 years		
	Type	Amount (INR 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
Cash Credit	Long Term	60.80	IVR BB-/ Stable	-	-	-
Letter of Credit	Short Term	26.50	IVR A4	-	-	-

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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
Long Term Fund Based	-	-	-	60.80	IVR BB-/Stable

Facility – Cash Credit					
Short Term Non-Fund Based Facility-Letter of Credit	-	-	-	26.50	IVR A4

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

Annexure 3: Facility wise lender details

https://www.infomerics.com/admin/prfiles/Len-Vikas-Ecotech-sep22.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.