Press Release

Vikas Ecotech Limited

December 05th, 2023

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facility	37.35	IVR BB- / RWNI; Withdrawn [IVR Double B minus / Rating watch under negative implications and withdrawn]	Ratings reaffirmed with continuation under Rating Watch with negative Implications and withdrawn	Simple
Short term Bank Facility	17.45	IVR A4 / RWNI; Withdrawn (IVR A Four / Rating watch under negative implications and withdrawn)	Ratings reaffirmed with continuation under Rating Watch with negative Implications and withdrawn	Simple
Total	**54.80**	**(Rupees fifty-four crore and eighty lakhs only)**		

Details of Facilities are in Annexure 1

Detailed Rationale

Infomerics Valuation and Rating Private Limited has reaffirmed the ratings and simultaneously withdrawn the long-term rating of IVR BB- / RWNI and short term ratings of IVR A4 / RWNI, reaffirmed to the proposed bank facilities of Vikas ecotech Ltd. The above action has been taken at the request of Vikas Ecotech Ltd. The rating is being withdrawn in accordance with Infomerics' Policy on Withdrawal of ratings.

The ratings reaffirmed to the bank facilities of Vikas Ecotech Limited derive strength from experienced management, improved scale of operation with moderate profitability and capital structure and healthy order book. The rating is however constrained by instances of customer concentration risk, raw material price fluctuation risk, Uncertainty in Contingent Liability due to pending litigations, Search Conducted by the income tax department and Working capital intensive nature of operation.

Key Rating Sensitivities: Not Applicable

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 with moderate profitability

Total operating income witnessed a significant growth of 60.95% with CAGR growth of 28% from Rs. 250.42 crore in FY22 to Rs.402.67 crore in FY23. However, the TOI is achieved of Rs. 118.44 Crore in H1FY24. EBITDA reduced from Rs. 23.05 crore in FY22 to Rs. 21.91 crore in FY23. Similarly, EBITDA margin has declined significantly by 376 BPS from 9.20% in FY22 to 5.44% in FY23(A), mainly due to increase in consumption of raw material cost. Further, the EBITDA stood at Rs. 9.57 Crore in H1FY24. PAT increased from Rs. 1.39 Cr in FY22 to Rs. 9.53 Cr in FY23. PAT Margin increased by 180 BPS from 0.55% in FY22 to 2.35% in FY23. GCA improved from Rs. 5.11 Cr in FY22 to Rs. 13.49 Cr in FY23. However, PAT stood at Rs. 3.32 Crore in H1FY24.

Moderate capital structure and debt protection metrics

The capital structure remained moderate with overall gearing of the company improved from 0.40x as on March 31, 2022, to 0.26x as on March 31, 2023, due to reduction in long term debt and accretion of surplus profit. Total indebtedness improved as reflected by TOL/TNW of 0.44x as on March 31, 2023, as against 0.51x as on March 31, 2022. The debt protection metrics also improved marked by improvement in interest coverage ratio to 2.06x in FY23 (1.21x in FY22) due to decrease in interest and finance charges. Similarly, DSCR of the company has improved from 0.94x in FY22 to 1.76x in FY23. Total debt to GCA improved to 4.58x (17.71x in FY22) in FY23.

Healthy Order Book

The company has outstanding order book of Rs. 25.85 Crore as on September 30th, 2023. These all are back-to-back orders from the clients supplied on the monthly basis.

Key Rating Weaknesses

Customer Concentration Risk

Top 2 customers of the company contributes for ~58% of the revenue for FY23, which indicates customer concentration risk. Any change in the procurement policy of these customers may adversely impact the business of the company. This also exposes the company's revenue growth and profitability to its customer's future growth plans. However, the clientele of the company is reputable, which helps mitigate the risks to some extent.

Raw Material Fluctuation Risk

Raw material prices are susceptible to 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 oils as most of the raw material of the are directly or indirectly derived from petrochemicals.

Uncertainty in Contingent Liability due to pending litigations: -

The Company has filed civil suit against two of its suppliers due to poor supply of soya bean oil. The Company has alleged a loss due to such poor quality of material supplied by them and non-recovery of money from debtors which were also affect goodwill of the Company. In response to this that two suppliers had filed winding up petition against the Company in High Court due to non-payment. Further, a case of ED pending against company and promoters under PMLA, 2020 (Money laundering act,2002). Further, an enquiry from DGGI was initiated in April’2022 pertaining to verification of certain suppliers, wherein Vikas Ecotech Limited submitted a deposit of Rs. 3.00 crore with the authorities, which is considered as recoverable, if and when the sanctity of the said supplier is verified, and the enquiry is concluded favourably. As on date, the matter is under adjudication. The total Demand of Income Tax Involves the matter of law and being reported as contingent liability which is totally based on the outcome of final order of the Honourable Delhi High Court. All these instances remain key monitorable and any adverse ruling in those can impact the credit profile of the entity.

Search Conducted by the income tax department.

The Search Operations, which were initiated by the Income Tax Department in connection with some other assessee (Customer of VEL), were also carried out at the premises of VEL, as VEL were having certain business relations with that assessee in past years. During the search operations, the company and its office bearers extended their full co-operation to the Income Tax Officials and provided all the information, documents sought for, and shall continue to co-operate with the department in further proceedings, if any. There is uncertainty that liability will arise in this matter against the company.

Working capital intensive nature of operation

The operations of the company are working capital intensive as reflected by high operating cycle of 159 days in FY23 (279 days in FY22). The same was largely on account of the high collection period offered by the company which stood at 123 days during FY23 with inventory days of 56 days in FY23. The company has significant dependence on working capital borrowings for its day-to-day operations resulting, in average working capital utilisation for fund-based limits remained high at 84.90% and non-fund based remained moderate at 50% in last 12 months ending at Sept 2023.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Rating Methodology for Trading Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Criteria of assigning Rating Outlook.

Policy on withdrawal of Ratings

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 84.90% and non-fund based remained moderate at 50% in last 12 months ending at Sept 2023. The current ratio stood at 2.19 times as of 31st March 2023. The unencumbered cash and bank balances stood at Rs. 0.21 crores as on 31st March 2023. The operating cycle stood at 159 days in FY23 as against 260 days on FY22. This was on account of decline in inventory days from 148 days in FY22 to 56 days in FY23 as well as decline in collection period from 154 days in FY22 to 123 days in FY23.

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):

For the year ended* As on	31-03-2022	31-03-2023
	Audited	Audited
Total Operating Income	250.42	402.67
EBITDA	23.05	21.91
PAT	1.39	9.53
Total Debt	92.95	61.78
Tangible Net Worth	226.44	237.20
EBITDA Margin (%)	9.21	5.44
PAT Margin (%)	0.55	2.35

Overall Gearing Ratio (x)	0.41	0.26

**Classification as per infomerics' standards*

Status of non-cooperation with previous CRA: None

Any other information: Not Applicable

Rating History for last three years:

Name of the Facility/ Instrument	Current Rating (Year: 2023-24)			Rating History for the past 3 years		
	Type	Amount (INR Crore)	Rating	Date(s) & Rating(s) assigned in 2023-24	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22
				October 13, 2023	September 13, 2022	
Cash Credit	Long Term	37.35	IVR BB-/ RWNI* ; Withdrawn	IVR BB-/ RWNI*	IVR BB-/ Stable	-
Letter of Credit	Short Term	17.45	IVR A4/ RWNI* ; Withdrawn	IVR A4/ RWNI*	IVR A4	-

***Rating Watch with Negative implications*

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Press Release

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

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

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

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 Facility – Cash Credit	-	-	-	37.35	IVR BB-/ RWNI*; Withdrawn
Short Term Non-Fund Based Facility- Letter of Credit	-	-	-	17.45	IVR A4/ RWNI*; Withdrawn

Rating Watch with Negative implications

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

Annexure 3: Facility wise lender details
https://www.infomerics.com/admin/prfiles/len-VEL-dec23.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.