Vikas EcoTech Limited

February 16, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	37.55	CARE BB (RWN)	Revision in credit watch from (Rating Watch with Developing Implications to (Rating Watch with Negative Implications
Long Term / Short Term Bank Facilities	17.45	CARE BB / CARE A4 (RWN)	Revision in credit watch from (Rating Watch with Developing Implications to (Rating Watch with Negative Implications

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in rating watch to negative implications (RWN) from rating watch with developing implication (RWD) assigned to the bank facilities of Vikas EcoTech Limited (VEL) factors in the appointment of forensic auditor by SEBI (Securities and Exchange Board of India) with respect to the financial statements of the company for the period commencing from FY 2018-19 to FY 2021-22 as SEBI believes that the business transactions of the company have not been properly dealt with in the financial disclosures. CARE shall review the ratings once more clarity emerges from its impact following the completion of audit exercise.

Earlier, the board has considered and granted in-principal approval for evaluating consolidation proposal of the company with Vrindaa Advanced Materials Ltd (VAML). The board has also appointed Price Waterhouse & Co LLP (PwC), for the evaluation of consolidation proposal from tax and regulatory perspective. Further, CARE has also taken the cognizance of the search operations, which were initiated by the Income Tax Department in connection with some other assessee on the company premises. Additionally, VEL is also acquiring Shamli Steel Private limited (SSPL) at the Enterprise Value (EV) of Rs. 160 crore through share swap deal. CARE shall review the ratings once more clarity with respect to operational aspects and impact on financials would emerge upon completion of the consolidation.

The ratings of VEL continue to remain constrained by working capital intensive nature of operations resulting in high working capital utilisation, moderate and fluctuating profitability margins, customer concentration risk, volatility in the raw material prices and foreign exchange price fluctuation risk. The ratings, however, derive strength from growing scale of operations over the past 2 years through FY23 (refer to the period April 01 to March 31), comfortable capital structure and moderate debt coverage indicators. The ratings also draw comfort from long track record of operations of the company in the chemical business along with a wide variety of products.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in liquidity marked by improvement in operating cycle below 130 days resulting in lower utilization of working capital limits.
- Sustenance in scale of operations along with PBILDT margins above 7% on a sustained basis.

Negative factors

- Significant increase in working capital requirement and resultant weakening of liquidity position of the company.
- Decline in scale of opeations with PBILDT margins below 4.5%.
- Any materially adverse outcome of the forensic audit having an adverse impact on the business and/or financial risk profile of the company.

Analytical approach: Standalone

Detailed description of the key rating drivers:

Key weaknesses

Working capital intensive nature of operations: The operations of the company are working capital intensive as reflected by high operating cycle of 166 days in FY23 (PY: 279 days). The same was largely on account of the high receivable period offered by the company which stood at 129 days during FY23. The company has significant dependence on working capital borrowings for its day-to-day operations resulting in average working capital utilisation of about 91% for the last 12 months

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

ended June 2023. Further it has also led to a few instances of overutilization in the limits majorly due to interest debited by the bank on the month end, however, the same gets regularised in 1-2 days.

Moderate and fluctuating profitability margins: The PBILDT margins of the company remained fluctuating during the period FY18-23 in the range of ~5% to ~15% mainly due to high volatility in raw material prices. During FY21, the operating margins of the company were impacted by COVID-19 since the company was involved in exports to Wuhan pre-covid. However, the same improved to 9.85% in FY22 as compared to 5.36% in FY21 largely due to increase in scale of operations and revenue generation from commission charged by the company in trading business. During FY23, the company reported subdued profitability margins of 5.72% largely due to the changes in the business segments of the company. The company generated ~64% of the revenue from trading during the year, which is a low margin segment, thereby resulting in moderation in PBILDT margins. However, the company is expected to report improvement in margins going forward as the focus of the company will be on the manufacturing division which has better margins as compared to its trading division. The company reported PBILDT margins of 9.13% during Q1FY24.

Volatility in raw material prices and foreign exchange fluctuation risk: The company is engaged in the manufacturing of polymers and special additives. Major raw material used are crude derivatives, which are actively traded thereby making the price vulnerable to fluctuations. Adverse movement in raw material prices can affect the firm's margin adversely. Further, the company imports 15-20% of the raw material required, exposing it to foreign exchange price fluctuation risk. The company does not have policy to hedge the forex exposure. Moreover, the company is involved in trading steel, TMT bars and coal. Steel and Coal are also actively traded commodities leading to fluctuation in prices and thereby impacting the margins of the company.

Customer Concentration risk: VEL has a high customer concentration risk with ~73% of the sales derived from the top 10 customers of the company. Further ~58% of the sales of the company is derived from only 2 customers which exposes the company towards 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.

Key strengths

Comfortable financial risk profile and moderate debt coverage indicators: The company has a comfortable financial risk profile characterised by improvement in overall gearing and debt coverage indicators. The capital structure of the company is comfortable marked by no external term loans as on March 31, 2023. The overall gearing of the company stood at 0.26x as on March 31, 2023, as compared to 0.41x as on March 31, 2022. The interest coverage of the company stood moderate at 2.17x as on March 31, 2023, as against 1.30x as on March 31, 2022. The total debt to GCA stood at 4.58x as on March 31, 2023, as against 18.18x as on March 31, 2022. During FY22, the company ventured into trading of TMT bars and Coal, resulting in significant growth in the topline of the company. VEL reported a growth in Total Operating Income (TOI) of ~114% and ~60% during FY22 and FY23 respectively, which stood at Rs 403.86 crores during FY23 and Rs 252.41 crores during FY22.

Wide range of products: VEL is engaged in manufacturing of a variety of high-end speciality chemical products which includes Organotin Stabilizers, Plasticizers, Dimethyl Tin Dichloride, Ethylene Vinyl Acetate (EVA) Compounds, Thermoplastic Rubber (TPR) Compounds, Thermoplastic Elastomer (TPE) Compounds among others. It caters to varied clients across industries. The end-user industries which use the products manufactured by VEL are agriculture, automotive, cables and electrical, healthcare and hygiene, polymers, packaging, footwear, and infrastructure. This reduces the risk associated with a decline in demand from any one industry segment. Moreover, the company is also involved into trading to TMT bars, HR Coils and Coal which further add to diversification of revenue profile.

Long Track record of operations: VEL was started in 1984 as 'Vikas Global One', promoted by Mr Vikas Garg. He has more than 20 years of experience in the field of petrochemical products. He is supported by his brother Mr Vivek Garg, who has an experience of more than 18 years in the industry. Further the promoters are supported by a team of professional who bring along with them experience in their respective industries.

Liquidity: Stretched

The liquidity profile of the company is stretched marked by high average utilisation in the working capital limits ~91% for past 12 months ending June 2023. Further, the operating cycle of the company is elongated with 166 days during FY23 due to high collection period of 129 days. However, the company has no debt repayment obligations owing to no external term loans as against expected GCA of ~Rs 8 to 10 crores.

Applicable criteria

[Policy on default recognition](#)
[Financial Ratios – Non financial Sector](#)
[Liquidity Analysis of Non-financial sector entities](#)
[Rating Outlook and Credit Watch](#)
[Short Term Instruments](#)
[Manufacturing Companies](#)
[Wholesale Trading](#)

Industry Classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Commodities	Chemicals	Chemicals & Petrochemicals	Specialty Chemicals

Vikas EcoTech Limited (VEL) was started in 1984 as 'Vikas Global One', promoted by Mr Vikas Garg. VEL is a ISO 9001:2015 certified company involved in manufacturing of Speciality Chemicals Additives and Speciality Polymer Compounds which are required by industries such as Footwear, Electrical, Packaging etc. Its manufacturing facility is located in Rajasthan with an installed capacity of ~56000 MT. During FY22, the company ventured into trading of TMT bars, Steel, HR Coils, CR Coils. Further the company started trading of Coal during FY23 and setup a plant in Ghaziabad to manufacture MS Sockets.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	9MFY24(UA)
Total operating income	252.41	403.86	188.14
PBILDT	24.87	23.11	14.54
PAT	1.39	9.53	4.55
Overall gearing (times)	0.41	0.26	NA
Interest coverage (times)	1.30	2.17	2.52

A: Audited UA: Unaudited; NA: Not Available; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	37.55	CARE BB (RWN)
Fund-based/Non-fund-based-LT/ST		-	-	-	17.45	CARE BB / CARE A4 (RWN)

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-Cash Credit	LT	37.55	CARE BB (RWN)	1)CARE BB (RWD) (20-Oct-23) 2)CARE BB; Stable (06-Sep-23)	-	-	-
2	Fund-based/Non-fund-based-LT/ST	LT/ST*	17.45	CARE BB / CARE A4 (RWN)	1)CARE BB / CARE A4 (RWD) (20-Oct-23) 2)CARE BB; Stable / CARE A4 (06-Sep-23)	-	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based/Non-fund-based-LT/ST	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:
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