

Vee Kay Vikram & Co LLP

March 25, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term/ Short-Term Bank Facilities	6.00	CARE BBB; Stable/ CARE A3+ (Triple B; Outlook: Stable/ A Three Plus)	Reaffirmed
Short Term Bank Facilities	12.50 (enhanced from 9.00)	CARE A3+ (A Three Plus)	Reaffirmed
Total	18.50 (Rupees Eighteen crore and fifty lakhs only)		

Details of facilities in Annexure-I

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Vee Kay Vikram and Company LLP (VKVC) continue to derive strength from experienced partners, its established and certified business operations coupled with strong customer profile from oil and gas sector. The ratings further derive strength comfortable profitability, capital structure and debt coverage indicators and adequate liquidity during FY20 (Audited, refers to April 01, 2019 to March 31, 2020).

The above strengths are however offset by its constitution as limited liability partnership, moderate scale of operation, modest orders on hand and susceptibility of profitability margins to foreign exchange as well as raw material price fluctuations.

Rating Sensitivities

Positive Factors

- Consistent growth in scale of operations of more than 25% while maintaining PBILDT margin of more than 19% with PAT margin of more than 10% and maintaining low leverage on sustained basis
- Change in constitution of the firm from LLP to private ltd company

Negative Factors

- Decline in total operating income by 50% on back of subdued revenue visibility
- Decline in operating profitability below 10% due to increase in raw material prices and/or adverse movement in foreign exchange rate
- Significant debt funded capex planned, putting pressure on liquidity

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and established business operations

VKVC's overall operations are managed by Mr. Vineet Sood who holds more than five decades of experience in the field of pipeline engineering and polyurethane products. He is supported by his two sons Mr. Vikram Sood and Mr. Viraen Sood. Further, operations of the entity are supported by other experienced professionals. Over the period, with strong industrial background and experience in pipeline engineering and polyurethane products, VKVC has managed to increase its scale gradually and has established its position in the industry by expanding its product range along with providing pipeline cleaning services.

Customer profile marked by renowned entities from Oil and Gas sector along with certified operations

VKVC is a member of Pigging products and service association and has various quality standards certifications such as ISO 9001:2015 & ISO 14001:2015 received from the Bureau Veritas Certificate (India) Private Limited. Further, over the period, VKVC has managed to include well known customers from Oil and Gas Industry in its portfolio. VKVC is also authorized to use official API (American Petroleum Institute) monogram on manufactured products and is also authorized to use the R symbol and apply 'NB' mark in accordance with the provisions of the National Board Inspection Code and NB-415, Accreditation of 'R' Repair organizations.

Comfortable profitability

The profitability of VKVC improved over previous year and remained comfortable marked by PBILDT margin of 19.49% in FY20 improved from 14.60% in FY19 mainly due to decline in raw material prices and its presence in niche segment of pigging solutions. As a result of improved operating margin and relatively stable depreciation and interest cost level during FY20, there was an improvement in PAT margin by 375 bps from 6.30% in FY19 to 10.04% in FY20. Consequently, gross cash

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

accruals (GCA) has also improved by 40.81% over the previous year remained moderate at Rs.10.00 crore during FY20 (FY19: Rs.7.10 crore).

Comfortable capital structure and debt coverage indicators

VKVC's capital structure has improved further owing to improvement in tangible net worth base on account of accretion of profit to reserves and continued to remain comfortable as marked by overall gearing ratio of 0.35 times as on March 31, 2020 as against 0.41 times as on March 31, 2019.

Debt coverage indicators also improved in line with increased profits and continue to remained comfortable marked by total debt to GCA of 0.91 times as on March 31, 2020 against 1.25 times as on March 31, 2019. Further, the PBILDT interest coverage ratio has also improved on account of stable interest cost coupled with improved operating profitability and remained comfortable during FY20 at 16.88 times as against 13.69 times during FY19.

Key Rating Weaknesses**Moderate Scale of operation and modest order book position**

The scale of operation marked by Total operating income (TOI) remained moderate at Rs.81.92 crore during FY20 (A) which was in line with previous year TOI of Rs.84.53 crore during FY19. The marginal decrease was on back of low execution of orders received from existing domestic market for its finished product. Order book is modest of less than 15% of TOI as on February 15, 2021.

Constitution as Limited Liability Partnership

VKVC being a limited liability partnership (LLP) is exposed to inherent risk of partners' capital being withdrawn at time of personal contingency. Moreover, limited liability partnership has restricted access to external borrowings as credit worthiness of partners would be key factors affecting credit decision for lenders. Further, during FY20, partners have withdrawn capital of Rs.3.96 crore against withdrawal of Rs.0.56 crore in FY19.

Foreign exchange and raw material price fluctuation risk

VKVC is exposed to the forex rate fluctuation risk due to its overseas exposure owing to export of 39% of its total sales. In absence of hedging policy in place, the firm is exposed to foreign exchange fluctuation risk which could impact its profit margins as well. During FY20, VKVC registered foreign exchange gain of Rs.0.09 crore.

Further, the major raw material for VKVC is stainless steel and polyurethane. The prices of steel are volatile in nature and move in tandem with the price in domestic as well as international market. Any adverse movement in prices of the same would impact profitability of the firm. Further, the prices of another key input i.e. polyurethane are derivatives of crude oil. Hence, any adverse fluctuation in the crude oil prices is likely to impact the profitability of VKVC.

Impact of COVID-19 pandemic on business operations of VKVC

Operations of VKVC were shutdown from March 18, 2020 till April 24, 2020 and resumed partially with single shift with 45% employee strength from April 25, 2020 for export orders. Furthermore, on account of nation-wide lock down imposed by government to curb the spread of COVID-19 pandemic across the world, there were no major tenders opened in middle east countries led to moderation in its order book position around which is 14% of TOI of FY20 as against previous order book of 49% of TOI of FY19.

Liquidity analysis:**Adequate liquidity**

The liquidity indicators of VKVC remained adequate marked by sufficient gross cash accruals of Rs.10.00 crore during FY20 as against its minimum debt obligation of Rs.0.27 crore towards vehicle loan repayment for FY21. Free Cash and bank balance has also improved and remained comfortable at Rs.15.54 crore as on March 31, 2020, while cash flows from operating activity remained positive at Rs.11.99 crore during FY20. Moreover, its average working capital limits utilization remained negligible for past twelve months ended January 2021. Also, the firm had not availed moratorium benefit on any of its bank facilities. Further, its operating cycle remained comfortable FY20.

Analytical Approach: Standalone**Applicable Criteria**

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology -Manufacturing Companies](#)

[Short Term Instruments](#)

[Financial ratios-Non-Financial Sector](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

About the Firm

VKVC was established in 1969 as proprietorship firm by Mrs. Kamlesh Sood and later it was reconstituted as partnership firm which was then converted into Limited Liability Partnership (LLP) in 1990. Presently, VKVC is managed by three partners Mr. Vineet Sood, Mr. Vikram Sood and Mr. Viraen Sood. VKVC is engaged in manufacturing of pipeline engineering and polyurethane products such as pigging products, pipeline equipment, pipeline repair and maintenance, pigging services etc. which ranges from elastomers products for oil-well drilling to pipe-line products for use in transportation and refinery operations as well as providing pipeline cleaning services that cater only oil and gas industry.

(Rs. in crore)

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	84.53	81.92
PBILDT	12.34	15.97
PAT	5.32	8.23
Overall gearing (times)	0.41	0.35
Interest coverage (times)	13.69	16.88

A: Audited

During current year, VKVC has registered TOI of Rs.84.45 crore till February 28, 2021.

Status of non-cooperation with previous CRA: CRISIL has moved its ratings assigned to the bank facilities of VKVC to 'Issuer Not Cooperating' vide press release dated March 20, 2020 on account of non-submission of requisite information to undertake review of outstanding rating.

Any other information: Not Applicable

Rating History (Last three years): Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT/ ST-Cash Credit	-	-	-	6.00	CARE BBB; Stable / CARE A3+
Non-fund-based - ST-Bank Guarantees	-	-	-	7.50	CARE A3+
Non-fund-based - ST-Bank Guarantees	-	-	-	5.00	CARE A3+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (03-Jan-20)	1)CARE BBB; Stable (05-Oct-18)	1)CARE BBB; Stable (06-Sep-17)
2.	Fund-based - LT/ ST-Cash Credit	LT/ST	6.00	CARE BBB; Stable / CARE A3+	-	1)CARE BBB; Stable / CARE A3+ (03-Jan-20)	1)CARE BBB; Stable / CARE A3+ (05-Oct-18)	1)CARE BBB; Stable / CARE A3+ (06-Sep-17)
3.	Non-fund-based - ST-Bank Guarantees	ST	7.50	CARE A3+	-	1)CARE A3+ (03-Jan-20)	1)CARE A3+ (05-Oct-18)	1)CARE A3+ (06-Sep-17)
4.	Non-fund-based - ST-Bank Guarantees	ST	5.00	CARE A3+	-	1)CARE A3+ (03-Jan-20)	1)CARE A3+ (05-Oct-18)	1)CARE A3+ (06-Sep-17)

Annexure 3: Complexity level of various instruments rated for this company

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

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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