

Press Release

Veekay Plast

March 05, 2020

Rating Reaffirmed



Total Bank Facilities Rated*	Rs.53.40Cr.
Long Term Rating	ACUITE BB / Outlook: Stable
Short Term Rating	ACUITE A4+

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed its long-term rating of '**ACUITE BB**' (read as **ACUITE double B**) and short-term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs.53.40 crore bank facilities of VEKAY PLAST. The outlook is '**Stable**'.

Veekay Plast (VP) is a Jaipur-based partnership firm established in 1996 and is engaged in the manufacturing of High Density Polyethylene (HDPE) pipes, Double wall corrugated (DWC) pipes and Medium Density Polyethylene (MDPE) pipes catering to telecom and water segment. Further, firm is also a Del Credere Associates cum Consignment stockists for Indial Oil Corporation (IOCL) for marketing of polymer in Rajasthan state. The manufacturing facility is located in Rajasthan with a total capacity of 3950 MT per month.

Analytical Approach

For arriving at its rating, Acuite has considered the standalone business and financial risk profile of Veekay Plast to arrive at this rating.

Key Rating Drivers

Strengths

• Established track record of Operations and experienced management

The promoter of VK, Mr. Vijay Kumar Kumar Katiyar, Mrs. Reema Godikar and Mr. Vimal Katiyar have more than two decades of experience in the pipe industry. Further, having more than two decades of operational track record has helped the firm to maintain to establish strong relations with its customers as well as with its suppliers and also maintain strong market position. Acuite believes that the promoters' experience and healthy relations with its customers and suppliers will continue to benefit firm over the medium term.

• Above average financial risk profile

The financial risk profile of the firm is above average marked by moderate net worth, average interest coverage metrics and gearing. The net worth of the firm stood at Rs.27.35 crore as on 31 March, 2019 as against Rs.12.75 crore as on 31 March, 2018. The accretion of reserves is on the account of infusion of quasi equity being infused the partners.

The Gearing of the firm has improved and stood at 1.33 times as on 31 March, 2019 as against 2.13 times as on 31 March, 2018. The total debt of Rs.36.37 crore as on 31 March, 2019 consist of long term debt of Rs.4.17 crore and working capital borrowings of Rs.32.20 crore. Interest coverage ratio (ICR) stood at 1.59 times in FY2019 as against 1.83 times in FY2018. TOL/ TNW (Total outside liabilities to total net worth) ratio stood at 2.11 times in FY2019 and 4.06 times in FY2018. Debt to EBITDA stood at 4.28 times in FY2019 as against 4.91 times in FY2018. Acuite believes that the financial risk profile of the firm is expected to remain above average on account by average net cash accruals and debt funded working capital requirements.

Weaknesses

• Working capital intensive nature of operations

Operations of VP are working capital intensive marked by Gross Current Assets (GCA) of 269 days in FY2019 as against 236 days in the previous. This is on the account of debtors' collection period which stood at 207 days in FY2019 as against 202 days in the previous year. Further, the current ratio of the firm stood at 1.26 times in FY2019 as against 1.06 times in FY2018. Acuite believes that the operations of the firm are likely to remain high on account firm's low bargaining power with its suppliers.

• **Highly competitive and tender base nature of business**

The firm is exposed to intense competition in the pipe industry due to low entry barriers and a large number of unorganized players. Further, the operations are tender-based with revenues susceptible to the number of tenders won by the firm. However, the extensive experience of the partners and established relations with clients, partially mitigate this risk.

Rating Sensitivities

- Significant improvement in operating performance of the firm leading to improvement in overall financial risk profile.
- Insufficient cash accruals leading to increase in borrowings and weakening of capital structure.
- Improvement in working capital cycle.

Material Covenants

None

Liquidity Profile: Adequate

VP has adequate liquidity marked by moderate net cash accruals to its maturing debt obligations. Firm generated cash accruals of Rs.3.15 crore in FY2019 as against payment obligations of Rs.0.72 crore in FY2018. The cash accrual of the firm is expected to remain in the range of Rs.2.00 crore to Rs.3.16 crore during FY2020-22 against repayment obligations of Rs.0.72 crore for the same period. Average bank limit utilization stood at around 93 percent for the last six months ended January 2020. The firm maintained unencumbered cash and bank balances of Rs.0.12 crore as on 31 march, 2019. Acuite believes that the liquidity of the firm is likely to remain adequate over the medium term on account of moderate cash accruals against no major debt repayments over the medium term.

Outlook: Stable

Acuite believes that VP will maintain a 'Stable' outlook over the medium term on account of its partners' extensive experience and healthy relationship with existing clients. The outlook may be revised to 'Positive' if the firm is able to sustain growth in revenues while maintaining its profitability and improving its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital management leading to deterioration of its financial risk profile and liquidity profile.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	87.83	75.72
PAT	Rs. Cr.	2.24	1.97
PAT Margin	(%)	2.55	2.61
Total Debt/Tangible Net Worth	Times	1.33	2.13
PBDIT/Interest	Times	1.59	1.83

Status of non-cooperation with previous CRA:

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
09-Apr-2019	Cash Credit	Long Term	12.00	ACUITE BB/ Stable (Reaffirmed)
	Cash Credit	Long Term	20.00	ACUITE BB/ Stable (Reaffirmed)
	Bank Guarantee	Short Term	8.00	ACUITE A4+ (Reaffirmed)
	Bank Guarantee	Short Term	8.00	ACUITE A4+ (Reaffirmed)
	Letter of Credit	Short Term	1.00	ACUITE A4+ (Reaffirmed)
	Term Loans	Long Term	4.40	ACUITE BB/Stable (Assigned)
16-Apr-2018	Cash Credit	Long Term	12.00	ACUITE BB/Stable (Reaffirmed)
	Cash Credit	Long Term	12.00	ACUITE BB/Stable (Reaffirmed)
	Bank Guarantee	Short Term	8.00	ACUITE A4+ (Reaffirmed)
	Bank Guarantee	Short Term	8.00	ACUITE A4+ (Reaffirmed)
	Letter of Credit	Short Term	1.00	ACUITE A4+ (Reaffirmed)
01-Feb-2017	Cash Credit	Long Term	7.50	ACUITE BB-/Stable (Assigned)
	Cash Credit	Long Term	12.00	ACUITE BB-/Stable (Assigned)
	Bank Guarantee	Short Term	7.50	ACUITE A4 (Assigned)
	Bank Guarantee	Short Term	1.00	ACUITE A4 (Assigned)
	Letter of Credit	Short Term	8.00	ACUITE A4 (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE BB / Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE BB / Stable (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE A4+ (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE A4+ (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A4+ (Reaffirmed)
Term Loans	28-Dec, 2018	Not Applicable	28-Jan, 2025	4.40	ACUITE BB / Stable (Reaffirmed)

Contacts

Analytical	Rating Desk
<p>Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in</p> <p>Deepesh Pamnani Analyst - Rating Operations Tel: 011-49731302 deepesh.pamnani@acuite.in</p>	<p>Varsha Bist Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in</p>

About Acuité Ratings & Research:

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