

Press Release

Veekay Plast

May 21, 2021



Rating Reaffirmed & Assigned

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

* Refer Annexure for details

Rating Rationale

Acuité 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 Veekay Plast (VP). The outlook is '**Stable**'.

The rating on VP takes into account the substantial growth expected in the operating income and stability in operating margins over the medium term. The rating is supported by the experienced management, long track record of operations and above average financial risk profile. These strengths are, however, partly offset by the working capital intensive nature of operations and highly competitive and tender based nature of business.

About the company

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, gas and water segment. Further, the firm are also a Del Credere Associates cum Consignment stockists for Indian Oil Corporation Limited (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, Acuité 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 VP, Mr. Vijay 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. Acuité 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.18.38 crore as on 31 March, 2020 as against Rs.15.73 crore as on 31 March, 2019. The accretion of reserves is on the account of profits being infused in the business. The Gearing of the firm has improved and stood at 2.53 times as on 31 March, 2020 as against 3.05 times as on 31 March, 2019. The total debt of Rs.46.55 crore as on March 31, 2020 consists of long term debt of Rs.3.47 crore, unsecured loans of Rs.15.06 crore and working capital borrowings of Rs.28.03 crore. Interest coverage ratio (ICR) stood at 1.65 times in FY2020 as against 1.59 times in FY2019. TOL/ TNW (Total outside liabilities to total net worth) ratio stood at 3.60 times as on March 31, 2020 and 4.40 times as on March 31, 2019. Debt to EBITDA stood at 5.53 times as on March 31, 2020 against 5.65 times as on March 31, 2019. Acuité 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 371 days in as on March 31, 2020 as against 275 days in the previous year. This is on the account of increase in debtors' collection period which stood at 228 days as on March 31, 2020 against 207 days in the previous year. Further, the current ratio of the firm stood at 1.47 times as on March 31, 2020 against 1.28 times as on March 31, 2019. Acuite believes that the operations of the firm are likely to remain high on account firm's low bargaining power with its suppliers.

• Significant increase in debt in FY2021

The firm has availed two Covid loans, i.e. Demand loan (BCECL- BOB Covid 19 Emergency Credit Facility) of Rs.1.20 crore and GECL (SBI-Guaranteed Emergency Credit Line) of Rs.3.31 crore. Therefore, the long-term debt has significantly increased to Rs.8.18 crore as on March 31, 2021 as against Rs.3.45 crore as on March 31, 2020. This is expected to impact the financial risk profile wherein the gearing levels (debt to equity ratio) and TOL/TNW are expected to deteriorate in FY2021. The debt protection metrics such as interest coverage ratio (ICR) and net cash accruals to total debt (NCA/TD) are also expected to be impacted in FY2021

• 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
- Any deterioration in its liquidity leading to deterioration in debt protection metrics.
- Improvement in working capital cycle.

Material Covenants

None

Liquidity Position: Adequate

VP has adequate liquidity marked by moderate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.3.30 in FY2020. The company's operations are working capital intensive as marked by high gross current asset (GCA) days of 371 in FY 2020. The bank limit utilization stood high at ~95 percent during the last 6 months period ended April, 2021. The company maintains unencumbered cash and bank balances of Rs.0.57 crore as on March 31, 2020. The current ratio of the firm stands at 1.47 times as on March 31, 2020. 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	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	63.59	87.83
PAT	Rs. Cr.	1.89	2.24
PAT Margin	(%)	2.98	2.55
Total Debt/Tangible Net Worth	Times	2.53	3.05
PBDIT/Interest	Times	1.65	1.59

Status of non-cooperation with previous CRA (if applicable)

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/view-rating-criteria-55.htm>
Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
05-Mar-2020	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 (Reaffirmed)
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 (Upgraded)
	Cash Credit	Long Term	12.00	ACUITE BB/Stable (Upgraded)
	Bank Guarantee	Short Term	8.00	ACUITE A4+ (Upgraded)
	Bank Guarantee	Short Term	8.00	ACUITE A4+ (Upgraded)
	Letter of Credit	Short Term	1.00	ACUITE A4+ (Upgraded)

***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	14.00	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	6.00	ACUITE A4+ (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A4+ (Reaffirmed)
Term Loan	28-Dec, 2018	10.10	28-Jun, 2025	3.14	ACUITE BB / Stable (Reaffirmed)
Working Capital Term Loan	26-Oct,2020	7.25	26-Oct, 2022	1.20	ACUITE BB / Stable (Assigned)
Working Capital Term Loan	01-Aug,2020	9.25	01-Jul,2024	3.31	ACUITE BB / Stable (Assigned)
Proposed	Not Applicable	Not Applicable	Not Applicable	4.75	ACUITE BB / Stable (Assigned)

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About Acuité Ratings & Research:

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