

Press Release

Vikas Multicorp Limited

October 23, 2020

Rating

Instrument / Facility	Amount (Rs. Crore)	Current Rating	Previous Ratings	Rating Action
Long Term Fund Based Bank Facilities	37.00	IVR BB+ / Under Credit watch with negative implications (IVR Double B Plus with Under Credit watch with negative implications)	IVR BBB/ Stable Outlook (IVR Triple B with Stable Outlook)	Revised
Short Term Non-Fund Based Bank Facilities	14.70	IVR A4+ (IVR Single A Four Plus)	IVR A3+ (IVR A three Plus)	Revised
Total	51.70			

Details of Facilities are in Annexure 1

Detailed Rationales

The revision of the rating to the bank facilities of Vikas Multicorp Limited is on account of moderation in operating performance and below expectations FY20 performance. The rating derives comfort from experienced promoters and management, strict government regulations to boost the business, stable position of the group and synergies between the companies and low gearing ratio. These rating strengths are partially offset by Moderation in operating performance, working capital intensive operations marked by elongated operating cycle capital structure and limited pricing flexibility due to low entry barriers and intense competition. **The rating is under credit watch with developing implications** on account of continuing losses and challenges arising from the COVID 19 pandemic.

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Upward Factors

- Significant growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals and debt matrix.

Downward Factors

- Further dip in operating income and/or profitability impacting the debt coverage indicators or liquidity, subdued industry scenario could lead to a negative rating action.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced Promoters and Management

Promoter of the Vikas group, Mr. Vikas Garg has an experience of 25 years in the petrochemical industry. Vikas group began operating as a trader of Petrochemical products and subsequently entered into manufacturing business. Mr. Garg is assisted in the day to day operations by highly qualified and experienced professionals possessing rich experience in their respective industries.

Strict government regulations will boost the business

Government is promoting policies to improve the climate, like EPR (extended producer responsibility) and other amendments in plastic management rules in 2016 regarding the plastic specification and defining the producer responsibility for recycling of the waste products. This government focus is expected to improve the need for specialized process to recycle the plastic waste.

Stable Position of the group and synergies between the companies

Vikas Ecotech Limited (VEL), which is the flagship company of Vikas group, is engaged in manufacturing of polymers and additives. The group has established its own network leveraging on the past experience of promoters and related parties. Vikas Group (VML and VEL both) is controlled by the same set of promoters. By virtue of being part of Vikas group, VML has the advantage of operational synergies. The manufacturing facilities of both VEL and VML are

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located in close proximity to each other leading to operational and logistical synergies. Products like heat stabilizers of VEL increases the efficiency of VML.

Low gearing ratio

The capital structure of the company is comfortable with an overall gearing ratio of 0.86x as on March 31, 2020 (0.93x on March 31, 2019), while Total outside liabilities to Adjusted Net worth ratio stood at 1.94x as on March 31, 2020.

Key Weaknesses

Moderation in operating performance

Vikas group has reported total revenue at Rs. 338.16 crore for FY20 against the revenue of Rs. 458.31 crore in FY19. Further, group has also registered moderation in profitability metrics with PAT margin at 0.70% in FY20 against 3.72% in FY19. Fall in operating performance is primarily led by the subdued demand in the last quarter of FY20. However, group has reported adequate gross cash accruals to meet the debt obligation.

Working capital intensive operations marked by elongated operating cycle capital structure

Being in trading and manufacturing operations the group is large dependent on its bank borrowings to fund its high working capital requirements. The operations are working capital intensive due to its elongated collection period of 300 days and inventory period of 72 days holding requirements for prompt supply of its traded goods. However, working capital requirements in partially offset by the high credit period offered by the suppliers which stood at 261 days as on March 31, 2020. Due to its higher reliance on bank borrowings, the average utilization of bank borrowings of the VML remained high at ~ 94% for past 12 months ended at August, 2020.

Limited pricing flexibility due to low entry barriers and intense competition

Vikas group faces intense competition from much larger domestic manufacturers and organized/unorganized traders, with the industry characterized by low entry barriers, which limits the pricing flexibility of the company.

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Analytical Approach: For arriving at the ratings, INFOMERICS analytical team has combined the financials of Vikas Multicorp Limited and Vikas Ecotech Limited and commonly referred as Vikas group as these companies have a common management team and operational and financial linkages.

Applicable Criteria:

Rating Methodology for Manufacturing/Trading Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity: Adequate

The liquidity position of the company is adequate marked by the sufficient gross cash accruals expected to meet the debt obligations. VML has comfortable capital structure primarily consisting of working capital limits leading to minimal repayments of term loans. VML has working capital intensive nature of business led by the elongated collection period and inventory requirement to meet near term requirements. Average working capital utilization for the last 12 months stood at around 94% reflecting marginal cushion to meet incremental requirements. Current ratio of the company stood at 1.26x as on March 31, 2020 imparting comfort for adequate current assets to meet near-term liabilities.

About the Company

Incorporated in November 1995, Vikas Multicorp Limited (Formerly Moonlite Technochem Ltd.) is a manufacturing cum trading company engaged in manufacturing/trading of polymers and polymer additive related chemicals. Company's head office is located in Delhi and has branches in Haryana and Kolkata (W.B). VML is engaged in manufacturing cum trading of various specialty chemicals, compounds, polymers M S Pipes, PVC Resins, plastic granules, styrene butadiene. Both the companies are controlled by Garg family.

Vikas Ecotech limited incorporated in 1984, head office in Delhi. Company manufactures polymer compounds, plasticizers, flame retardants, Organotin stabilizers. VEL serves to clients of various

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industries including agriculture, food packaging, wires and cables, automobile, footwear, health and pharma, infrastructure, plastic, polymers and others. VML has its investment in VEL (Vikas Ecotech Ltd.). VML holds 13.18% share in VEL.

Financials (Consolidated):

(Rs. crore)

For the year ended*	31-03-2019	31-03-2020
	Audited	Audited
Total Operating Income	458.31	338.16
EBITDA	48.66	24.94
PAT	17.17	2.43
Total Debt	173.99	163.99
Tangible Net worth	187.07	191.19
EBITDA Margin (%)	10.62	7.37
PAT Margin (%)	3.72	0.70
Overall Gearing Ratio (x)	0.93	0.86

Financials (Standalone):

(Rs. crore)

For the year ended*	31-03-2019	31-03-2020
	Audited	Audited
Total Operating Income	215.82	155.15
EBITDA	5.07	6.27
PAT	2.10	1.42
Total Debt	34.66	38.83
Tangible Net worth	89.67	53.28
EBITDA Margin (%)	2.35	4.04
PAT Margin (%)	0.96	0.90
Overall Gearing Ratio (x)	0.39	0.73

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Issuer not cooperating by Brickwork Ratings, vide press release dated September 21, 2020 due to non-availability of information.

Any other information: Nil

Rating History for last three years:

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Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Cash credit	Long Term	36.00	IVR BB+ / Under Credit watch with negative implications	IVR BBB / Stable (July 25, 2019)	-	-
2.	Term loan	Long Term	1.00	IVR BB+ / Under Credit watch with negative implications	-	-	-
3.	LC/BG	Short Term	14.70	IVR A4+ (IVR Single A Four Plus)	IVR A3+ (July 25, 2019)	-	-

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.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio.

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Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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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 Bank Facilities- Cash Credit	-	-	-	36.00	IVR BB+ / Under Credit watch with negative implications
Long Term Bank Facilities- Term Loan	-	-	As per the sanction terms	1.00	IVR BB+ / Under Credit watch with negative implications
Short Term Bank Facilities- LC/BG	-	-	-	14.70	IVR A4+ (IVR Single A Four Plus)