

Press Release

Vishnu Enterprises

May 19, 2021

Rating Assigned



Total Bank Facilities Rated*	Rs. 20.00 Cr.
Long Term Rating	ACUITE BB/ Outlook: Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned its long term rating of '**ACUITE BB**' (read as **ACUITE double 'B'**) on the Rs.20.00 crore bank facilities of Vishnu Enterprises (VE). The outlook is '**Stable**'.

About the Firm

Established in 1989 and based in Chennai (Tamil Nadu), Vishnu Enterprises (VE) is a proprietorship firm and is founded and managed by Mr. Rajesh Mittal (Proprietor). VE is engaged in the trading and distributorship of TMT bars, TMT Re-bars, structural and binding wires. The firm is an exclusive distributor of Jindal Steel & Power Limited (JSPL) for Panther TMT Re-bars and official channel partner of Arun Vyapar Udyog Private Limited (AVUPL) for TMT bars for the state of Tamil Nadu and Pondicherry.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the Vishnu Enterprises (VE) to arrive at this rating.

Key Rating Drivers

Strengths

- **Proprietor's extensive experience in the steel industry; established track record of operations in the region of Tamil Nadu**

Vishnu Enterprises is managed by Mr. Rajesh Mittal (Proprietor) and has been part of the day-to-day operations of the firm for more than 3 decades. Mr. Mittal ventured into the steel business at an early age and through the support and network of existing players with extensive experience in the industry, Mr. Mittal was able to grow the business at a significant pace. The extensive experience of the proprietor is reflected through the established relationship with its customers and suppliers. The key suppliers of the firm include Jindal Steel and Power Limited (JSPL), Arun TMT amongst others. The firm is exclusive distributor of JSPL Panther TMT Re-bars and channel partner for Arun TMT bars for the region of Tamil Nadu and Pondicherry. The firm has more than 500 dealers for catering to the demand of TMT bars and rebars in the region of Tamil Nadu and Pondicherry. The firm currently have total 6 godowns in Vellore, Coimbatore, Gummidipoondi, Vichoor and Burma Nagar for facilitating efficient operation and distribution. Acuité believes that VE will continue to derive benefits from its experienced management and established presence and track record of operations over the medium term.

- **Low customer concentration risk on revenue profile**

VE has more than 500 dealers under the trading business of TMT bars and rebars, thus ensuring diversified customer base across the region of Tamil Nadu and Chennai. None of the single customer of VE contributed more than 20 per cent of total sales of the firm. The top 10 customers of the firm cumulatively contribute around 20-30 per cent to the total revenue generation of the firm. Acuité believes that VE has low risk towards its revenue profile in terms of customer concentration.

- **Moderate debt protection metrics**

VE's EBITDA margins has marginally deteriorated to 1.56 per cent in FY2020 against 1.67 per cent in FY2019 on account of marginal increase in overheads expenses. The finance and interest cost declined in FY2020 on account of decrease in interest payment on unsecured loans and have led to improvement in the debt protection metrics. The interest coverage ratio (ICR) and debt service coverage ratio (DSCR) stood at 1.43 times and 1.31 times respectively in FY2020 as against 1.28 and 1.22 times, respectively in the previous year. NCA/TD (Net cash accruals to total debt) remains constant at 0.03 times in FY2020 as against 0.04 times in FY2019. Acuite expects the debt protection metrics to remain moderate over the medium term on account of expected improvement in operating income and profitability of the firm over the medium to long term period.

- **Moderate level of working capital management**

VE's working capital is managed at moderate efficiency level as reflected by its gross current asset (GCA) days of around 77 days as on March 31, 2020. The firm maintains inventory of around 18-40 days. VE extends a credit period of around 30-45 days to its customers. On the other hand, the firm gets 14-24 days credit from its suppliers. As a result, the reliance on working capital limits is moderate, leading to modest utilization of its bank lines at an average of 53.5 per cent over the last twelve months through March 2021. The firm also has a channel financing facility exclusive for transactions with JSPL of Rs.5.00 Cr and is utilized at an average limit of 58.1 per cent over the last 6 months through March 2021. The current ratio stands at modest level of 1.41 times on March 31, 2020 against 1.54 times in previous year. Acuite expects the working capital management to remain moderate over the medium term on account of the moderate inventory levels maintained by the firm and modest credit period extended to its customers.

- **Linkage of Business Risk Profile with Jindal Steel & Power Limited**

VE is an exclusive distributor of Jindal Steel & Power Limited's Panther TMT Rebars and solely deal with the same in the region of Tamil Nadu and Pondicherry, the business risk of the firm is linked to an extent with JSPL. Acuite believes that drivers such as Pricing power, Product Mix, Distribution network, Product launches, Strategic alliances and Promotion done by JSPL will have impact on business risk profile of the firm.

Weaknesses

- **Decline in operating income of the firm in FY2020; Impact of Covid-19 pandemic lockdown restriction on the business in Q1FY2021**

VE's operating income in FY2020 has declined by 26 per cent to Rs.207.42 Cr. against Rs.280.70 Cr. in FY2019 on account of change in the brand of TMT rebars offered by the firm. The firm was appointed as distributor for JSW Neo steel for the region of Chennai, Thiruvallur and Vellore districts in the state of Tamil Nadu from FY2007 to FY2019. In the FY2020, JSPL Panther offered Vishnu Enterprises with the distributorship for the state of Tamil Nadu and Pondicherry. The firm accepted the offer and ended terms with JSW Neo steel in FY2020, as the product and brand was new, there was change in the customer base of the firm, leading to lower revenues in FY2020. The firm generated revenue of Rs.20.83 Cr. in Q1FY2021 against Rs.47.97 Cr. in Q1FY2020 on account of the Covid-19 pandemic and its restrictions during the period. Acuite expects the operating income in FY2021 (Prov) to decline by around 13 per cent to Rs.180.66 Cr. against Rs.207.42 Cr. in previous year on account of impact from Covid-19 pandemic.

- **Below average gearing and network; high leverage capital structure**

VE's net worth stood at Rs.4.69 Cr. as on 31 March, 2020 as against Rs.4.77 Cr. as on 31 March, 2019. The networth of the firm has been fluctuating over the period on account of capital withdrawal by the proprietor. The gearing level (debt-equity) has increased at 6.07 times as on 31 March, 2020 as against 5.20 times as on 31 March, 2019, the deterioration is on the account of increase in short term borrowings of the firm to Rs.16.43 Cr. as on 31 March, 2020 against Rs.13.15 Cr. in previous year. TOL/TNW (Total outside liabilities/Total net worth) has deteriorated and stands at 9.21 times as on 31 March, 2020 against 7.39 times in previous year. High TOL/TNW is on account of increase in trade payable which stood at Rs.13.05 Cr. as on 31 March 2020 against Rs.10.00 Cr. in previous year. The total debt of Rs.28.46 Cr. as on 31 March, 2020 consist of long-term debt of Rs.0.46 Cr., short term debt of Rs.16.43 Cr. and unsecured loans of Rs.11.49 Cr. Acuite expects the capital structure to remain highly leveraged over the medium term on account of increase in long term loan by Rs.3.31 Cr. due to availing of covid loan from the banking institution and expected increase in unsecured loans in FY2021.

• Withdrawal of capital by proprietor

VE is a proprietorship firm and is exposed to the likeliness of the proprietor withdrawing capital from the business. The capital account of the proprietor of the firm has been fluctuating in past financial years indicating the withdrawal of capital from the business.

• Exposure to intense competition and susceptibility to cyclicalities in the steel business

The firm faces intense competition from organized as well as unorganized players catering to regional demands. Also, firm's operating income is linked to the performance of the steel industry (TMT), which has witnessed volatility in the past financial years. Acuite believes that the firm's operating metrics is susceptible to intense competition and inherent risks in the steel industry.

Liquidity Position: Adequate

The firm's liquidity is adequate marked by moderate level of unencumbered cash and bank balance and modest generation of net cash accruals in FY2020 to its maturing debt obligations. The firm has generated cash accruals in the range of Rs.0.66-0.94 Cr. during last three years ending FY2020 as against its maturing long term debt obligations of Rs.0.08-Rs.0.10 Cr. for the same period. The firm's working capital is moderate as evident from Gross Current Asset (GCA) of 77 days as on March, 2020 as compared to 47 days as on March, 2019. The current ratio stood at 1.41 times as on 31 March 31 2020 and the average fund based limit remains utilized at 55-60 per cent over the 12 months ended March, 2021. The firm maintains unencumbered cash and bank balances of Rs.0.14 Cr. as on 31 March 31 2020. Acuite believes that the liquidity of the firm is likely to improve over the medium term on account of increase in scale of operations and improvement in realization on the products offered by the firm. The firm is expected to generate NCA in range of Rs.1.44-2.20 Cr against maturing debt obligations in range of Rs.0.08-1.13 Cr. over the medium term.

Rating Sensitivities

Positive

- Improvement in the scale of operations and sufficient liquidity
- Sustainable improvement in Profitability, Leverage and Solvency position of the firm.

Negative

- Any deterioration in working capital cycle and liquidity profile of the firm.
- Any deterioration in Revenue profile and leverage position of the firm.
- Any weakening of financial risk profile of the firm.

Outlook: Stable

Acuite believes that VE will continue to benefit over the medium term on account of long track record of operations and experienced management in the industry. The outlook may be revised to 'Positive', in case of increasing scale of operations leading to higher-than-expected revenues and profitability with improvement in financial risk profile. Conversely, the outlook may be revised to 'Negative' in case VE registers lower-than-expected revenues and profitability or any significant stretch in its working capital management or larger-than-expected debt-funded capital expenditure leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	207.42	280.70
PAT	Rs. Cr.	0.69	0.71
PAT Margin	(%)	0.33	0.25
Total Debt/Tangible Net Worth	Times	6.07	5.20
PBDIT/Interest	Times	1.43	1.28

For the period 11MFY2021 (Prov), VE, has reported a profit after tax (PAT) of Rs.3.64 Cr. on total operating income of Rs.158.56 Cr.

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

None

Any other information

None

Material Covenants

None

Applicable Criteria

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

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	19.82	ACUITE BB/Stable (Assigned)
Term Loan	08-Jan-2019	8.90%	31-Dec-2021	0.06	ACUITE BB/Stable (Assigned)
Working Capital Term Loan	28-Oct-2020	8.50%	05-Dec-2024	0.12	ACUITE BB/Stable (Assigned)

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About Acuite Ratings & Research:

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