



SMERA RATINGS LIMITED

**Varun Castings Private Limited (VCPL)****Rating  
Rationale****July 31, 2014**

Facilities	Amount (Rs. Crore)	Ratings
Buyers Credit/Inland letter of Credit/Foreign Letter of Credit	5.00	SMERA A4 (Assigned)
Cash Credit	4.00	SMERA B+/ Stable (Assigned)
Term Loan	0.46	SMERA B+/ Stable (Assigned)

SMERA has assigned a rating of '**SMERA B+**' (read as **SMERA B plus**) to the Rs.4.46 crore long term (fund based) bank facilities and **SMERA A4** (read as **SMERA A four**) to the Rs.5.00 crore short term (non-fund based) bank facility of Varun Castings Private Limited (VCPL). The outlook is '**Stable**'. The rating is constrained by the company's weak financial risk profile, low profitability and customer concentration risk. The aforementioned weaknesses are offset by the company's experienced management and healthy relations with customers and suppliers.

VCPL, incorporated in 2008, is an iron ingot manufacturer and supplier. The company sells its products to rolling mills in Ludhiana and Mandi Gobindgarh in Punjab. The company has a weak financial risk profile evident from the high leverage (debt-equity ratio) of 3.09 times (provisional), with interest coverage and net cash accruals to total debt (NCA/TD) of 1.35 times and 0.02 times (provisional), respectively in FY2014-15 (refers to financial year April 1 to March 31).

VCPL has low profitability marked by operating margins and profit after tax (PAT) margins of 0.87 per cent and 0.11 per cent respectively in FY2014-15. The company generates around 70 per cent of revenue from its sole customer, Nav Durga Steel Corporation.

However, the company is headed by Mr. Vinod Kumar Goyal, Director who has more than 35 years of experience in the company's line of business. VCPL has healthy relations with its customers and suppliers.

**Outlook: Stable**

SMERA believes VCPL continues to benefit from its experience management and healthy relationship with its customers and suppliers. The outlook may be revised to 'Positive', in case of improvement in the profitability, without stretching its working capital cycle or improvement in capital structure. Conversely, the outlook may be revised to 'Negative', in case of deterioration in the working capital cycle or with any large debt funded capital expenditure taking place.

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*Rating  
Rationale*

### About the Company

VCPL, incorporated in 2008, is an iron ingot manufacturer and supplier. The company sells its products to rolling mills in Ludhiana and Mandi Gobindgarh in Punjab.

For FY2013-14, VCPL reported profit after tax (PAT) of Rs.0.09 crore on operating income of Rs.56.13 crore as compared with PAT of Rs.0.16 crore on operating income of Rs.73.37 crore for FY2012-13. For FY2014-15, VCPL reported PAT of Rs.0.08 crore (provisional) on operating income of Rs.71.82 crore. The company's net worth stands at Rs.2.97 crore as on March 31, 2015 as compared with Rs.3.09 crore a year earlier.

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