

Press Release

Venkateshwara Sponge & Iron Co Private Limited (VSICPL)

31 January, 2017

Rating Reaffirmed

Total Bank Facility Rated *	Rs.18.00 Crore
Long Term Rating	SMERA B/Stable (Reaffirmed)
Short Term Rating	SMERA A4 (Reaffirmed)

**Refer Annexure for details*

Rating Rationale

SMERA has reaffirmed the long term rating of '**SMERA B**' (**read as SMERA B**) on the Rs.13.00 crore long term bank facility and '**SMERA A4**' (**read as SMERA A four**) on the Rs.5.00 crore short term bank facility of Venkateshwara Sponge & Iron Co Private Limited (VSICPL). The outlook is '**Stable**'.

VSICPL, incorporated in 2005 is engaged in the manufacture of sponge iron and trading of coal. The company was promoted by Mr Birendra Roy and his son Mr Saurabh Kumar.

List of key rating drivers and their detailed description

Weaknesses:

Modest scale of operations: The company has modest scale of operations with marginal dip in revenue at Rs.28.76 crore in FY2016 as against Rs.29.25 crore in FY2015.

Weak financial risk profile: The financial risk profile is marked by high gearing (Debt-Equity) at 5.73 times as on 31 March, 2016 as against 5.71 times as on 31 March, 2015. The interest coverage improved marginally to 1.81 times in FY2016 from 1.71 times in FY2015. The company has low net worth base of Rs.6.54 crore in FY2016 as against Rs.6.49 crore in FY2015.

Working capital intensive operations: The operations are working capital intensive marked by gross current days of 702 in FY2016 as against 652 in FY2015 mainly on account of funds getting blocked in inventory. The inventory day's stood at 737 in FY2016 as against 660 days in FY2015.

Intense market competition: The ratings also factor in the highly competitive and fragmented sponge iron industry due to low entry barriers with large numbers of organised and unorganised players.

Strengths:

Experienced management: The promoters, Mr. Birendra Rai (Managing Director) and his son, Mr. Saurabh Rai (Director) possess extensive experience in the sponge iron industry.

Proximity to raw material sources: The ratings also factor in the proximity of the manufacturing facilities to sources of iron ore and coal in Jharkhand and Orissa.

Analytical approach: SMERA has considered the standalone business and financial risk profiles of VSICPL.

Applicable Criteria

- Manufacturing Entities: <https://www.smera.in/criteria-manufacturing.htm>
- Application of Financial Ratios and Adjustments: <https://www.smera.in/criteria-fin-ratios.htm>
- Default Recognition: <https://www.smera.in/criteria-default.htm>

Outlook - Stable

SMERA believes that VSICPL will maintain a stable outlook in the medium term owing to its experienced management. The outlook may be revised to 'Positive' if the company registers higher-than-expected growth in revenues and profitability or improves its working capital management. Conversely, the outlook may be revised to 'Negative' in case of lower-than-expected growth in revenues and profitability or deterioration in the financial risk profile owing to higher working capital requirements.

About the Rated Entity

Incorporated in 2005, the Jharkhand-based VSICPL was promoted by Mr. Birendra Rai and his son to manufacture sponge iron and trade in coal. The company has an installed capacity of 100 MT per day.

For FY2016, the company achieved net profit after tax (PAT) of Rs.0.06 crore on operating income of Rs.28.76 crore as compared with PAT of Rs.0.05 crore on operating income of Rs.29.25 crore in FY2015.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for the last three years:

Name of Facilities	2017			2016		2015		2014	
	Scale	Amount (Rs. Crore)	Rating with Outlook	Date	Rating	Date	Rating	Date	Rating
Cash Credit	LT	13.00	SMERA B/Stable (Reaffirmed)	-	-	3 Sept, 2015	SMERA B/Stable (Assigned)	-	-
Bank Guarantee	ST	5.00	SMERA A4 (Reaffirmed)	-	-	3 Sept, 2015	SMERA 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	NA	NA	NA	13.00	SMERA B/Stable (Reaffirmed)
Bank Guarantee	NA	NA	NA	5.00	SMERA A4 (Reaffirmed)

Note on complexity levels of the rated instrument: <https://www.smera.in/criteria-complexity-levels.htm>

Contacts:

Analytical	Rating Desk
Mr. Vinayak Nayak, Head -Ratings Operations, SMERA Bond Ratings Tel: 022-67141190 Email: vinayak.nayak@smera.in	Varsha Bist Sr. Executive Tel: 022-67141160 Email: varsha.bist@smera.in
Mr. Aniruddha Dhar Rating Analyst, Tel:033-66201200 Email: aniruddha.dhar@smera.in	

ABOUT SMERA

SMERA Ratings Limited is a joint initiative of SIDBI, Dun & Bradstreet Information Services India Private Limited (D&B) and leading public and private sector banks in India. SMERA is registered with SEBI as a Credit Rating Agency and accredited by Reserve Bank of India. For more details please visit www.smera.in.

Disclaimer: A SMERA rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. SMERA ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, SMERA, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. SMERA is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. SMERA ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.smera.in) for the latest information on any instrument rated by SMERA.