



SMERA RATINGS LIMITED

Vardhman Industries Limited

(VIL)

**Rating
Rationale****January 21, 2016**

Facilities	Amount (Rs. Crore)	Ratings
Cash Credit	9.00	SMERA BBB/Stable (Assigned)
Letter of Credit	1.00	SMERA A3+ (Assigned)

SMERA has assigned a long term rating of '**SMERA BBB**' (read as **SMERA triple B**) and a short-term rating of '**SMERA A3+**' (read as **SMERA A three plus**) to the Rs.10.00 crore bank facilities of Vardhman Industries Limited (VIL). The outlook is '**Stable**'.

For arriving at the ratings, SMERA has consolidated the business and financial risk profiles of VIL and Vallabh Steels Limited, together referred to as the Vallabh group. The consolidation is due to the similar line of business, common promoters, shared brand name, and operational and financial synergies within the group.

The ratings draw comfort from the group's established presence in the steel industry, proven track record of over three decades, extensive industry experience of the promoters and moderate financial risk profile. The ratings also draw support from the group's established relationship with customers and suppliers. However, the ratings are constrained by the group's working capital intensive operations, susceptibility to volatility in raw material prices and intense competition prevalent in the steel industry.

Rating Sensitivity Factors

- Ability to increase revenues and improvement in profitability margin
- Working capital management

Outlook: Stable

SMERA believes that the outlook on the Vallabh group will remain stable over the medium term. The outlook may be revised to 'Positive' in case the company registers significant increment in its revenue and profitability while improving its liquidity position. The outlook may be revised to 'Negative' in case of deterioration in its financial risk profile and stretched working capital cycle.

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About the Company

Vallabh Group was promoted in 1980 by Mr. Kapil Jain based in Ludhiana, Punjab. The group manufactures cold-rolled strips, galvanised and black electric resistance welding steel pipes, galvanised plain sheets, galvanised corrugated sheets, and colour-coated sheets. The products are marketed in the domestic and international markets under the Vallabh and Oswal brands.

In FY2014-15, VIL and its promoters sold 50 per cent stake in Vallabh Tinplate Private Limited (VTPL) as a part of a share purchase agreement, post which VTPL was renamed JSW VTPL. VIL also transferred its cold-rolling mill with capacity of 72,000 metric tonnes per annum (MTPA) at Rajpura, Punjab, to JSW VTPL as a part of the agreement. Currently JSW VTPL is independent of Vallabh Group that is a reason SMERA has not consolidated JSW VTPL for arriving at the rating. Currently, VIL has ~23.5 per cent stake in JSW VTPL, 26.5 per cent is held by promoters of VIL and 50 per cent by JSW Steels Limited.

The net cash accruals (NCA) stood at Rs.13.56 crore on operating income of Rs.349.27 crore for FY2014-15, as compared with NCA of Rs.15.66 crore on operating income of Rs.566.94 crore in the previous year. The networth of the group stood at Rs.118.45 crore as compared to Rs.124.68 crore in the previous year.

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