

March 15, 2016

Facilities	Amount (Rs. Crore)	Ratings
Cash Credit I	45.00* (enhanced from Rs. 9.00 crore)	SMERA BBB/Negative (Rating Reaffirmed and outlook revised)
Letter of Credit	25.00# (enhanced from Rs.1.00 crore)	SMERA A3+ (Reaffirmed)
Cash Credit II	15.00	SMERA BBB/Negative (Assigned)
Term Loan I	17.07	SMERA BBB/Negative (Assigned)
Term Loan II	5.00	SMERA BBB / Negative (Assigned)
Stand by line of credit	3.00	SMERA A3+ (Assigned)
Inland Letter of Credit	13.50	SMERA A3+ (Assigned)
Forward Contract	0.80	SMERA A3+ (Assigned)
Cash Management Services	1.00	SMERA A3+ (Assigned)

*sublimit is EPC/PCFC to the extent of Rs.4.00 crore and FBD/EBR to the extent of Rs.12.25 crore.

#sublimit is bank guarantee to the extent of Rs.0.50 crore.

SMERA has reaffirmed the long term rating of '**SMERA BBB**' (read as SMERA triple B) and short term rating of '**SMERA A3+**' (read as SMERA A three plus). The outlook is revised from '**Stable**' to '**Negative**'.

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 low gearing. 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, moderate coverage indicators. The rating is further constrained by susceptibility to volatility in raw material prices and intense competition prevalent in the steel industry.

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.

Rating Sensitivity Factors

- Ability to increase revenues and improvement in profitability margin
- Working capital management
- Ability to improve debt protection metrics

Outlook: Negative

SMERA believes that the outlook on the Vallabh group will remain 'negative' over the medium term due to continuous stress in steel industry. The rating may be downgraded by multiple notches in case of sustained stretched on company's revenue profile, financial risk profile and liquidity position. Conversely, the outlook may be revised to 'Stable in case the company registers significant improvement in its revenue and profitability while improving its liquidity position.

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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