

## Press Release

30 June, 2017

Vardhman Industries Limited

Rating Downgraded



<b>Total Bank Facilities Rated*</b>	Rs.125.37 Cr
<b>Long Term Rating</b>	SMERA D (Downgraded)
<b>Short Term Rating</b>	SMERA D (Downgraded)

\* Refer Annexure for details

### Rating Rationale

SMERA has downgraded the long-term rating on the Rs. 125.37 crore bank facilities of Vardhman Industries Limited (VIL) to '**SMERA D (read as SMERA D)**' from 'SMERA BBB' and short term rating to '**SMERA D (read as SMERA D)**' from 'SMERA A3+'. The downgrade is on account of delays in servicing of debt obligations by the company.

Incorporated in 1984, VIL is engaged in the manufacturing of galvanised steel sheets, colour coated steel sheets, precision tubes and steel ingots at Ludhiana.

**Analytical approach:** During the previous rating exercise, SMERA had combined the business and financial risk profiles of VIL and Vallabh Steels Limited (VSL) for analytical purposes. The consolidated approach was based on the premise that these companies, collectively referred to as the Vallabh group, were in the same line of business, under the same promoter group and management and there would be operational and financial linkages.

However, SMERA has now adopted a standalone approach owing to the following reasons: No operational linkages between the companies since FY2015-16, separate directors in both the companies and the companies not being disclosed as related to each other in their respective annual reports. VSL has not extended any financial support to VIL as was envisaged during the initial rating. This indicates an absence of financial fungibility even in times of distress. Hence, SMERA has decided to adopt a standalone approach.

### List of key rating drivers and their detailed description

#### Strengths:

**Improvement in operating profit margins:** VIL's margins improved to 6.71 per cent in FY2015-16 from 5.47 per cent in FY2014-15 due to focus on high margin products.

#### Weaknesses

**Delays in servicing of debt obligations:** VIL has sizeable repayment obligation of around Rs.8.00 crore per annum. The company has been facing liquidity pressures which have resulted in delay in servicing of term loan obligations. The account is currently under restructuring.

**Decline in revenue:** VIL registered decline in revenues during the last two years due to excess steel capacity globally, falling demand and steep drop in prices in the Indian steel industry. Revenues declined from Rs.397.32 crore in FY2013-14 to Rs.245.14 crore in FY2015-16.

## About the Rated Entity - Key Financials

VSL reported Profit after Tax (PAT) of Rs. 4.71 crore on operating income of Rs. 245.14 crore in FY2015-16 as compared with PAT of Rs. 3.50 crore on operating income of Rs. 283.33 crore in FY2014-15. The net worth stood at Rs. 82.42 crore as on 31 March, 2016 as against Rs. 76.79 crore in the previous year.

## Applicable Criteria

- Default Recognition - <https://www.smerra.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smerra.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smerra.in/criteria-fin-ratios.htm>

## Note on complexity levels of the rated instrument:

<https://www.smerra.in/criteria-complexity-levels.htm>

**Status of non-cooperation with previous CRA:** CRISIL Ratings in its press release dated February 20, 2017 inter alia stated the following 'CRISIL has been consistently seeking information and a discussion with the management of Vardhman Industries Limited (VIL) since June 2016. Despite several emails and calls, the company has not submitted any information. CRISIL had, through letter dated February 9, 2017, informed the company of the extant guidelines and requested for cooperation. The issuer, however, remains non-cooperative.

The investors, lenders and all other market participants should exercise due caution while using the rating assigned/reviewed with the suffix 'ISSUER NOT COOPERATING'. These ratings lack a forward looking component as it is arrived at without any management interaction and is based on best available or limited or dated information on the company.'

**Any other information:** None

## Rating History (Upto last three years)

Date	Name of the Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
15-Mar-2016	Cash Credit I	Long Term	45.00* (enhanced from Rs.9.00 Crore)	SMERA BBB/Negative (rating reaffirmed, outlook revised)
	Letter of Credit	Short Term	25.00# (enhanced from Rs.1.00 Crore)	SMERA A3+ (Reaffirmed)
	Cash Credit II	Long Term	15.00	SMERA BBB/Negative (Assigned)
	Term Loan I	Long Term	17.07	SMERA BBB/Negative (Assigned)
	Term Loan II	Long Term	5.00	SMERA BBB/Negative (Assigned)
	Stand by Line of Credit	Short Term	3.00	SMERA A3+ (Assigned)
	Inland Letter of Credit	Short Term	13.50	SMERA A3+ (Assigned)
	Forward Contract	Short Term	0.80	SMERA A3+ (Assigned)
	Cash Management Services	Short Term	1.00	SMERA A3+ (Assigned)
21-Jan-2016	Cash Credit	Long Term	9.00	SMERA BBB/Stable (Assigned)
	Letter of Credit	Short Term	1.00	SMERA A3+ (Assigned)

**\*Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings
Cash Credit I*	N.A.	N.A.	N.A.	45.00	SMERA D (Downgraded from SMERA BBB/Negative)
Letter of Credit#	N.A.	N.A.	N.A.	25.00	SMERA D (Downgraded from SMERA A3+)
Cash Credit II	N.A.	N.A.	N.A.	15.00	SMERA D (Downgraded from SMERA BBB/Negative)
Term Loan I	N.A.	N.A.	N.A.	17.07	SMERA D (Downgraded from SMERA BBB/Negative)
Term Loan II	N.A.	N.A.	N.A.	5.00	SMERA D (Downgraded from SMERA BBB/Negative)
Stand by Line of Credit**	N.A.	N.A.	N.A.	4.00	SMERA D (Downgraded from SMERA A3+)
Inland Letter of Credit	N.A.	N.A.	N.A.	13.50	SMERA D (Downgraded from SMERA A3+)
Proposed Facility	N.A.	N.A.	N.A.	0.80	SMERA D (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.

\*\*include cash management services of Rs.1.00 crore in Stand by Line of Credit

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## ABOUT SMERA

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