

**March 15, 2016**

| Facilities | Amount (Rs. Crore) | Ratings |
|-------------------------|-----------------------|-------------------------------|
| Cash Credit | 43.00 | SMERA BBB/Negative (Assigned) |
| Term Loan | 7.00 | SMERA BBB/Negative (Assigned) |
| Inland Letter of Credit | 10.00 | 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.60.00 crore bank facilities of Vallabh Steel Limited (VSL). The outlook is '**Negative**'.

SMERA has consolidated the business and financial risk profiles of VSL and Vardhman Industries Limited, together referred to as the Vallabh group. The consolidation is in view of the common ownership, 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 promoters and low gearing. The ratings also draw support from the group's established relations with customers and suppliers. However, the ratings are constrained by the working capital intensive operations and moderate coverage indicators. The ratings are further constrained by susceptibility of profit margins to volatility in raw material prices and intense competition in the steel industry.

Rating Sensitivity Factors

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

Outlook: Negative

SMERA believes that the outlook on the Vallabh group will remain 'Negative' over the medium term due to continuous stress in the steel industry. The ratings may be downgraded in case of stretch in the 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.

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.

**About the Company**

The Punjab-based Vallabh Group was promoted in 1980 by Mr. Kapil Jain. The group manufactures cold-rolled strips, galvanised and black electric resistance welding steel pipes, galvanised plain sheets, among others. The products are sold in the domestic and international markets under the Vallabh and Oswal brand names.

In FY2014-15, VIL and its promoters sold 50 per cent stake in Vallabh Tinplate Private Limited (VTPL) as part of a share purchase agreement, after which VTPL was renamed JSW VTPL. VIL also transferred its cold-rolling mill with capacity of 72,000 metric tonnes per annum (MTPA) 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 to arriving at the rating since. 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.

Contact List

| Media/Business Development | Analytical Contact | Rating Desk |
|---|---|--|
| Suman M. National Sales Head – Emerging Corporate Group Tel: +91-22-6714 1151 Cell: +91 9892306888 Email: suman.m@smera.in | Vinay Chhawchharia Associate Vice President – Corporate Ratings Tel: +91-22-6714 1156 Email: vinay.chhawchharia@smera.in | Tel: +91-22-6714 1184 Email: ratingdesk@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.