

Press Release

Vallabh Steel Limited

August 30, 2018

Rating Downgraded and Reaffirmed



| | |
|-------------------------------------|--|
| Total Bank Facilities Rated* | Rs.60.00 Cr. |
| Long Term Rating | ACUITE BB / Outlook: Stable (Downgraded from ACUITE BB+/Stable) |
| Short Term Rating | ACUITE A4+ (Reaffirmed) |

* Refer Annexure for details

Rating Rationale

Acuite has downgraded the long term rating to '**ACUITE BB**' (read as **ACUITE double B**) from '**ACUITE BB+**' (read as **ACUITE double B plus**) and reaffirmed short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs.60.00 cr. bank facilities of Vallabh Steel Limited. The outlook is '**Stable**'.

The rating downgrade revision is in view of reduced financial flexibility on account of reduction in the bank limits, slower than expected growth in accruals, uneven revenue and profitability trend and likelihood of reduced funding support from promoters. The working capital limits of the company were reduced to Rs.38.00 crore from Rs.45.00 crore thereby impeding its growth rate in the medium term in spite of positive trend in the steel sector. The profitability of the company continues to remain low with cash accruals of Rs.3.64 crore in FY2018 as against Rs.3.81 crore in FY2017 and Return on Capital Employed (ROCE) of 4.74 percent in FY2018 as against 5.79 percent in FY2017. The promoters may be required to extend support to Vardhaman Industries Limited (VIL), which has been classified as a Non Performing asset and is under Corporate Insolvency Resolution Process.

Vallabh Steels Limited (VSL), incorporated in 1980 is engaged in the manufacturing of cold rolled coils and ERW Black and galvanised pipes. The manufacturing plant is located at Ludhiana, Punjab and has installed capacity of 40,000 MTPA for cold rolled coils and 7,500 MTPA for galvanised pipes.

Key Rating Drivers

Strengths

- **Established presence in steel industry**

VSL was incorporated in 1980 by Mr. Kapil Jain. The company manufactures cold rolled strips galvanized and black electric resistance welding steel pipes and has more than three decades of presence in the steel industry. The directors Mr. Kapil Jain and Mr. Jawahar Jain have experience over three decades in the Industry. The company on account of the extensive experience of promoters has healthy relations with various customers as well as suppliers.

Weaknesses

- **Moderate financial risk profile**

VSL has moderate financial risk profile marked by tangible net worth of Rs.44.20 crore as on 31 March, 2018 as against Rs.46.60 crore as on 31 March, 2017. The gearing stood at 0.73 times as on 31 March, 2018 as against 0.96 times as on 31 March, 2017. The debt of Rs.32.34 crore mainly consists of term loans of Rs.5.30 crore and working capital borrowings of Rs.27.04 crore as on 31 March 2018 (Provisional). The coverage indicators are moderate with Interest Coverage Ratio (ICR) of 2.01 times for FY2018 as against 1.77 times in FY2017. The profitability of VSL continues to remain low with ROCE of 4.74 percent in FY2018 as against 5.79 percent in FY2017. The debt to EBITDA stood high at 4.82 times in FY2018 as against 5.33 times in FY2017. Acuite expects ability of company to generate healthy cash accruals to improve its financial risk profile will remain key rating sensitivity.

• Uneven revenue and profitability trend

VSL registered operating income of Rs.138.02 crore in FY2018 as against Rs.119.98 crore in FY2017 as against Rs.141.92 crore in FY2016. The operating margins declined to 4.86 percent in FY2018 from 7.02 percent in FY2017. The net margins also stood low at 0.68 percent in FY2018 as against 0.64 percent in FY2017 on account of high interest cost.

• Working capital intensive operations

VSL's operations are working capital intensive marked by high Gross Current Asset (GCA) of 164 days in FY2018 (Provisional) compared to 241 days in FY2017. The GCA days are mainly dominated by high debtor days of 102 days in FY2018 (Provisional) compared to 128 days in FY2017. The average cash credit utilization for the past six months ended July 2018 stood at ~85 percent. Acuite believes that the efficient working capital management will be crucial to the company in order to maintain a stable credit profile.

• Competitive and fragmented industry marked by customer concentration risk

VSL operates in a highly competitive and fragmented industry characterized by large number of unorganized players affecting margins. Further the company is exposed to customer concentration risk as 76 percent of its revenue comes from JSW Vallabh Tinplate Private Limited.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of the VSL to arrive at this rating.

Outlook: Stable

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

About the Rated Entity - Key Financials

| | Unit | FY18 (Actual) | FY17 (Actual) | FY16 (Actual) |
|-------------------------------|---------|---------------|---------------|---------------|
| Operating Income | Rs. Cr. | 138.02 | 119.98 | 141.92 |
| EBITDA | Rs. Cr. | 6.71 | 8.42 | 6.47 |
| PAT | Rs. Cr. | 0.94 | 0.76 | 1.36 |
| EBITDA Margin | (%) | 4.86 | 7.02 | 4.56 |
| PAT Margin | (%) | 0.68 | 0.64 | 0.96 |
| ROCE | (%) | 4.74 | 5.79 | 6.22 |
| Total Debt/Tangible Net Worth | Times | 0.73 | 0.96 | 1.11 |
| PBDIT/Interest | Times | 2.01 | 1.77 | 1.58 |
| Total Debt/PBDIT | Times | 4.82 | 5.33 | 7.53 |
| Gross Current Assets (Days) | Days | 164 | 241 | 215 |

Status of non-cooperation with previous CRA (if applicable)

CRISIL, vide its press release dated October 13, 2017 had denoted the rating of Vallabh Steels Limited as 'CRISIL BB/ Negative/ CRISIL A4+; ISSUER NOT COOPERATING' on account of lack of adequate information required for monitoring of ratings. The earlier rating, however, stood at 'CRISIL BB+/Negative/CRISIL A4+' vide its press release dated February 20, 2017

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

| Date | Name of Instrument / Facilities | Term | Amount (Rs. Cr) | Ratings/Outlook |
|-----------|---------------------------------|------------|-----------------|--------------------------------|
| 10-Jul-17 | Cash Credit | Long term | 45.00 | ACUITE BB+/Stable (Downgraded) |
| | Term Loan | Long term | 7.00 | ACUITE BB+/Stable (Downgraded) |
| | Letter of Credit | Short Term | 8.00 | ACUITE A4+ (Downgraded) |
| 15-Mar-16 | Cash Credit | Long term | 43.00 | ACUITE BBB/Negative (Assigned) |
| | Term Loan | Long term | 7.00 | ACUITE BBB/Negative (Assigned) |
| | Letter of Credit | Short Term | 10.00 | ACUITE 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/Outlook |
|------------------------|------------------|----------------|----------------|-------------------------------------|--|
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 38.00 (Revised from Rs.45.00 crore) | ACUITE BB/Stable (Downgraded from ACUITE BB+/Stable) |
| Term loans | Not Applicable | Not Applicable | Not Applicable | 7.00 | ACUITE BB/Stable (Downgraded from ACUITE BB+/Stable) |
| Letter of Credit | Not Applicable | Not Applicable | Not Applicable | 6.00 (Revised from Rs.8.00 crore) | ACUITE A4+ (Reaffirmed) |
| Proposed Bank Facility | Not Applicable | Not Applicable | Not Applicable | 9.00 | ACUITE BB/Stable (Downgraded from ACUITE BB+/Stable) |

Contacts

| Analytical | Rating Desk |
|--|---|
| <p>Aditya Gupta Head- Corporate and Infrastructure Sector Tel: 022-67141111 aditya.gupta@acuite.in</p> <p>Avadhoot Mane Analyst - Rating Operations Tel: 022-67141138 avadhoot.mane@acuiteinratings.in</p> | <p>Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in</p> |

About Acuité Ratings & Research:

Acuité Ratings & Research Limited (*erstwhile SMERA Ratings Limited*) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

Disclaimer: An Acuité 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. Acuité 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, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité 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. Acuité 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.acuite.in) for the latest information on any instrument rated by Acuité.