

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

Acuité 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 FT2018 as against 5.79 percent in FY2017. The debt to EBIDTA stood high at 4.82 times in FY2018 as against 5.33 times in FY2017. Acuité 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. Acuité 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

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

Outlook: Stable

Acuité 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)

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About Acuité Ratings & Research:

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