

Press Release
Vallabh Steel Limited

August 29, 2019

Rating Downgraded



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 (Downgraded from ACUITE A4+)

* Refer Annexure for details

Rating Rationale

Acuité has downgraded the long-term rating to '**ACUITE BB-**' (**read as ACUITE double B minus**) from '**ACUITE BB**' (**read as ACUITE double B**) and short-term rating to '**ACUITE A4**' (**read as ACUITE A four**) from '**ACUITE A4+**' (**read as ACUITE A four plus**) on the Rs.60.00 crore bank facilities of VALLABH STEELS LIMITED. The outlook is '**Stable**'.

The rating downgrade is in view of deteriorating financial risk profile on account of operating loss in Q1 2020 due to write down of inventory and sharp increase in the interest costs. The GCA days increased to 201 days in FY2019 against 162 days in 2018. The coverage indicators ICR and DSCR declined to 1.74 times and 1.39 times in FY2019, respectively, against 2.01 and 2.09 times in FY2018. Debt to EBITDA stood higher at 6.34 times in FY2019 against 4.95 times in FY2018. PAT and ROCE stood low at 0.21 per cent and 4.70 per cent in FY2019, respectively.

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.

Analytical Approach

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

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.38.89 crore as on 31 March, 2019 as against Rs.44.20 crore as on 31 March, 2018. The gearing stood at 0.98 times as on 31 March, 2019 as against 0.75 times as on 31 March, 2018. The debt of Rs.38.04 crore mainly consists of term loans of Rs.4.25 crore and working capital borrowings of Rs.33.78 crore as on 31 March, 2019. The coverage indicators are moderate with Interest Coverage Ratio (ICR) of 1.74 times for FY2019 as against 2.01 times in FY2018. The profitability of VSL continues to remain low with ROCE of 4.70 per cent in FY2019 as against 4.71 per cent in FY2018. The debt to EBITDA stood high at 6.34 times in FY2019 as against 4.95 times in FY2018. Acuité expects ability of the 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.116.89 crore in FY2019 as against Rs.138.02 crore in FY2018, Rs.119.98 crore in FY2017 and Rs.141.92 crore in FY2016. The operating margins stood at 5.13 per cent in FY2019 from 4.83 per cent in FY2018 and 7.02 per cent in FY2017. The net margins also stood low at 0.21 per cent in FY2019 as against 0.68 per cent in FY2018 and 0.64 per cent in FY2017.

- **Working capital intensive operations**

VSL's operations are working capital intensive marked by high Gross Current Asset (GCA) of 201 days in FY2019 compared to 162 days in FY2018. The GCA days are mainly dominated by high debtor days of 131 days in FY2019 compared to 102 days in FY2018. 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 characterised by large number of unorganised players affecting margins. Further, the company is exposed to customer concentration risk as 76 per cent of its revenue comes from JSW Vallabh Tinplate Private Limited.

Liquidity Position

Liquidity of VSL is adequate marked by low net cash accruals in the range of Rs.2.00-4.00 crore during the last three years. The company's operations are working capital intensive as marked by gross current asset (GCA) days of 201 in FY2019. This has led to moderate reliance on working capital borrowings. The company maintains unencumbered cash and bank balances of Rs.2.03 crore as on March 31, 2019. The current ratio of the company stood moderate at 1.47 times as on March 31, 2019. Acuité believes that the ability of the company to manage its liquidity will be a key rating sensitivity.

Outlook: Stable

Acuité believes that the outlook on VSL will remain 'Stable' over the near to 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 financial risk profile. 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	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	116.89	137.97	119.98
EBITDA	Rs. Cr.	6.00	6.66	8.42
PAT	Rs. Cr.	0.24	0.94	0.77
EBITDA Margin	(%)	5.13	4.86	7.02
PAT Margin	(%)	0.21	0.68	0.64
ROCE	(%)	4.70	4.71	5.79
Total Debt/Tangible Net Worth	Times	0.98	0.75	0.96
PBDIT/Interest	Times	1.74	2.01	1.77
Total Debt/PBDIT	Times	6.34	4.95	5.33
Gross Current Assets (Days)	Days	201	162	241

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
30-Aug-18	Cash Credit	Long term	38.00	ACUITE BB/Stable (Downgraded)
	Term Loan	Long term	7.00	ACUITE BB/Stable (Downgraded)
	Letter of Credit	Short Term	6.00	ACUITE A4+ (Reaffirmed)
	Proposed Bank Facility	Long Term	9.00	ACUITE BB/Stable (Downgraded)
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	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	ACUITE A4 (Downgraded from ACUITE A4+)
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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