

## Press Release

### Vallabh Steels Limited

March 05, 2020



### Rating Update

<b>Total Bank Facilities Rated*</b>	Rs.60.00 crore
<b>Long Term Rating</b>	ACUITE D (Downgraded from ACUITE BB-/Stable)
<b>Short Term Rating</b>	ACUITE D (Downgraded from ACUITE A4)

\* Refer Annexure for details

### Rating Rationale

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

The downgrade in the rating is on account of persistent and continuous irregularity in servicing of debt obligations by the company.

Vallabh Steels Limited (VSL), incorporated in 1980 is engaged in the manufacturing of cold rolled coils and ERW Black and galvanized 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 galvanized 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

- **Delays in servicing of debt obligations**

VSL has been facing liquidity pressures which have resulted in which have resulted into persistent and continuous irregularity in servicing of debt obligations.

- **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 characterized by large number of unorganized 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.

**Rating Sensitivities**

Not Applicable

**Material Covenants**

None

**Liquidity Position: Poor**

The company has poor liquidity marked by low net cash accruals. The company generated cash accruals of Rs.2.59 crore in FY2019. The company's working capital operations are moderately intense marked by the gross current asset (GCA) days of 201 days for 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 31 March 2019. The current ratio stands at 1.47 times as on 31 March 2019. Acuité believes that the ability of the company to manage its liquidity will be a key rating sensitivity.

**About the Rated Entity - Key Financials**

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	116.89	137.97
PAT	Rs. Cr.	0.24	0.94
PAT Margin	(%)	0.21	0.68
Total Debt/Tangible Net Worth	Times	0.98	0.75
PBDIT/Interest	Times	1.74	2.01

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

CRISIL, vide its press release dated December 12, 2019 had denoted the rating of Vallabh Steels Limited as 'CRISIL B+/Stable/CRISIL A4; ISSUER NOT-COOPERATING' on account of lack of adequate information required for monitoring of ratings.

**Any Other Information**

Acuité is yet to receive the latest No Default Statement (NDS) from the rated entity, despite repeated requests and follow-ups.

**Applicable Criteria**

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities in Manufacturing Sector - <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

**Note on complexity levels of the rated instrument**

<https://www.acuite.in/view-rating-criteria-55.htm>

**Rating History (Up to last three years)**

Date	Name of the instrument/facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
August 29, 2019	Cash Credit	Long term	38.00	ACUITE BB-/Stable (Downgraded from ACUITE BB/Stable)
	Term Loans	Long term	7.00	ACUITE BB-/Stable (Downgraded from ACUITE BB/Stable)
	Letter of Credit	Short term	6.00	ACUITE A4 (Downgraded from ACUITE A4+)
	Proposed Bank Facility	Long term	9.00	ACUITE BB-/Stable (Downgraded from ACUITE BB/Stable)
August 30, 2018	Cash Credit	Long term	38.00	ACUITE BB/Stable (Downgraded from ACUITE BB+/Stable)
	Term Loans	Long term	7.00	ACUITE BB/Stable (Downgraded from ACUITE BB+/Stable)
	Letter of Credit	Short term	6.00	ACUITE A4+ (Reaffirmed)
	Proposed Bank Facility	Long term	9.00	ACUITE BB/Stable (Downgraded from ACUITE BB+/Stable)
July 10, 2017	Cash Credit	Long term	45.00	ACUITE BB+/Stable (Downgraded from ACUITE BBB/Negative)
	Term Loans	Long term	7.00	ACUITE BB+/Stable (Downgraded from ACUITE BBB/Negative)
	Letter of Credit	Short term	8.00	ACUITE A4+ (Downgraded from ACUITE A3+)

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

<b>Name of the Facilities</b>	<b>Date of Issuance</b>	<b>Coupon Rate</b>	<b>Maturity Date</b>	<b>Size of the Issue (Rs. Cr.)</b>	<b>Ratings/Outlook</b>
Cash Credit	Not Applicable	Not Applicable	Not Applicable	38.00	ACUITE D (Downgraded)
Term Loans	Not Available	Not Applicable	Not Available	7.00	ACUITE D (Downgraded)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE D (Downgraded)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	9.00	ACUITE D (Downgraded)

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**About Acuité Ratings & Research:**

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