

Press Release

23 June, 2017

Vel Steel Tubes & Engineering Private Limited

Rating Assigned



Total Bank Facilities Rated *	Rs. 17.00 Cr. #
Long Term Rating	SMERA B+ / Outlook: Stable

Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA B+**' (read as **SMERA B plus**) on the Rs. 17.00 crore bank facilities of Vel Steel Tubes & Engineering Private Limited. The outlook is '**Stable**'.

The Chennai-based Vel Steel Tubes & Engineering Private Limited (VSTEPL) manufactures mild-steel tubes and pipes by procuring steel coils from TATA steel, Jindal Steel and JSW steels. The company caters to reputed clients such as BHEL, L&T and has a strong dealer network. The production capacity stands at 64000 MT per annum with current capacity utilisation of 25 percent.

Key Rating Drivers

Strengths

- **Experienced management and moderate operational track record**

VSTEPL, incorporated in 2008, is engaged in the manufacturing of mild-steel tubes and pipes. The promoter, Mr. R Srinivasan has more than a decades experience in the said line of business.

- **Healthy operating margin and moderate RoCE**

The operating margins have remained healthy at 8.35 percent in FY2016 compared to 8.74 percent in FY2015. The company registered moderate RoCE of 10.92 percent in FY2016.

Weaknesses

- **Modest scale of operations**

The revenue increased by ~29 percent in FY2016 over FY2015. However, the scale of operations are modest with operating income of Rs.27.10 crore in FY2016 compared to Rs.21.00 crore in FY2015. The company registered revenue of ~Rs.32.00 crore from April 2016 to February 2017.

- **Thin PAT margins**

The PAT margins are thin at 0.21 percent in FY2016, a decline from 1.40 percent in FY2015.

- **Below average financial risk profile**

VSTEPL's financial risk profile was below average marked by low networth of Rs.3.03 crore and gearing of 4.66 times as on 31 March, 2016 compared to networth of Rs.2.98 crore and gearing of 3.46 times as on 31 March, 2015. The debt protection metrics are moderate as interest coverage ratio and DSCR (debt service coverage ratio) stood at 1.52 times and 1.45 times respectively in FY2016.

- **Working capital intensive operations**

The company's operations are working capital intensive as reflected by the gross current assets (GCA) days of 198 days as on 31 March, 2016 (PY: 195 days). Further, the working capital cycle was stretched to 180 days as on 31 March, 2016 due to elongated inventory holding of 129 days. The working capital facility has been fully utilised.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of Vel Steel Tubes & Engineering Private Limited (VSTEPL).

Outlook: Stable

SMERA believes that the outlook on VSTEPL will remain 'Stable' over the medium term on account of its experienced management. The outlook may be revised to 'Positive' in case the company achieves substantial growth in revenue while maintaining profit margins and improvement in its financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of decline in revenue and profit margins that lead to deterioration in the financial risk profile.

About the Rated Entity - Key Financials

For FY2015-16, VSTEPL reported profit after tax (PAT) of Rs.0.06 crore on operating income of Rs.27.10 crore as compared with net loss of Rs.0.29 crore on operating income of Rs.21.00 crore in the previous year. The net worth stood at Rs.3.03 crore as on 31 March, 2016 as against Rs.2.98 crore in the previous year.

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

CRISIL, vide release dated March 29, 2015 has suspended the ratings of VSTEPL on account of lack of adequate information required for monitoring of ratings.

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>
- Complexity Level Of Financial Instruments - <https://www.smera.in/criteria-complexity-levels.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Not Applicable

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	12.00	SMERA B+ / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	1.17	SMERA B+ / Stable
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.00	SMERA B+ / Stable
Proposed	Not Applicable	Not Applicable	Not Applicable	2.83	SMERA B+ / Stable

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ABOUT SMERA

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