

## Press Release

### Vel Steel Tubes & Engineering Private Limited

June 29, 2018



### Rating Reaffirmed

<b>Total Bank Facilities Rated*</b>	Rs. 17.00 Cr.
<b>Long Term Rating</b>	ACUITE B+ / Outlook: Stable

\* Refer Annexure for details

### Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE B+**' (**read as ACUITE 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. It caters to reputed clients such as BHEL, L&T and has a strong dealer network. The production capacity stands at 1 lakh MT per annum with current capacity utilisation of 20 percent.

### Key Rating Drivers

#### Strengths

- Experienced management and moderate operational track record**

VSTEPL was incorporated in 2008 and has operational track record of a decade. The Promoter, Mr. R Srinivasan has more than a decade of experience in the same line of business.

#### Weaknesses

- Modest scale of operations**

The scale of operation is modest with revenue of Rs.24.54 crore in FY2017 as against Rs.27.10 crore in FY2016. The company has registered revenue of ~Rs.26.00 crore from April 2017 to March 2018. The company has registered PAT loss of 0.28 percent in FY2017 as against PAT of 0.21 percent in FY2016.

- Below average financial risk profile**

The financial risk profile was below average marked by low net worth of Rs.2.96 crore which declined from Rs.3.03 crore in FY2016, this was due to the PAT loss incurred by the company in FY2017. The debt to equity ratio stood at 4.73 times as on 31 March, 2017 compared to 4.66 times as on 31 March, 2016. The company's debt protection metrics deteriorated as interest coverage ratio stood at 1.32 times in FY2017 as against 1.52 times in FY2016. DSCR (debt service coverage ratio) stood at 1.18 times in FY2017 as against 1.41 times in FY2016. Net cash accruals of the company were Rs.0.61 crore for FY2017 as against Rs.0.69 crore in FY2016.

- Working capital intensive operation**

VSTEPL's operations are working capital intensive, as reflected by gross current assets (GCA) of 217 days in FY2017 as against 198 days as on FY2016. Further, the working capital cycle was also stretched to 203 days as on FY2017 as against 180 days in FY2016, this was due to elongated inventory holdings of 174 days in FY2017 as against 129 days in FY2016. The working capital facility is fully utilised.

#### Analytical Approach

Acuité has considered the standalone business and financial risk profiles of Vel Steel Tubes & Engineering Private Limited (VSTEPL) to arrive at this rating.

### Outlook: Stable

Acuité believes that the outlook on VSTEPL will remain 'Stable' over the medium term on account of the 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 financial risk profile and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in revenue and profit margins that leads to deterioration in financial risk profile and working capital management.

### About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	24.54	27.10	21.00
EBITDA	Rs. Cr.	2.46	2.26	1.84
PAT	Rs. Cr.	-0.07	0.06	0.29
EBITDA Margin	(%)	10.04	8.35	8.74
PAT Margin	(%)	-0.28	0.21	1.40
ROCE	(%)	10.63	10.92	21.89
Total Debt/Tangible Net Worth	Times	4.73	4.66	3.46
PBDIT/Interest	Times	1.32	1.52	1.92
Total Debt/PBDIT	Times	5.62	6.16	5.63
Gross Current Assets (Days)	Days	217	198	195

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

None

### Any other information

None

### Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.acuitein/criteria-fin-ratios.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. Crore)	Ratings/Outlook
23-Jun-2017	Cash Credit	Long Term	12.00	ACUITE B+/Stable (Assigned)
	Term loans	Long Term	1.17	ACUITE B+/Stable (Assigned)
	Proposed Cash Credit	Long Term	1.00	ACUITE B+/Stable (Assigned)
	Proposed	Long Term	2.83	ACUITE B+/Stable (Assigned)

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

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	ACUITE B+/Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	1.17	ACUITE B+/Stable (Reaffirmed)
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE B+/Stable (Reaffirmed)
Proposed	Not Applicable	Not Applicable	Not Applicable	0.83	ACUITE B+/Stable (Reaffirmed)

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