

Press Release

Vinayak Tmt Bars Private Limited

May 26, 2017

Rating Assigned

Total Bank Facilities Rated*	Rs. 42.00 Cr.
Long Term Rating	SMERA BBB- / Outlook: Stable
Short Term Rating	SMERA A3

** Refer Annexure for details*

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BBB-** (read as **SMERA BBB minus**)' and short term rating of '**SMERA A3**' (read as **SMERA A three**) on the Rs. 42.00 crore bank facilities of Vinayak Tmt Bars Private Limited. The outlook is '**Stable**'.

Vinayak TMT Bars Private Limited (Vinayak TMT) is an Ahmedabad-based company incorporated in 2008, by Mr. Shantilal Shah, Mr. Karsanbhai Patel and others. The company manufactures TMT Bars and MS Billets and caters mainly to the real estate and infrastructure sectors. The current installed capacity stands at 300 metric tons (MT) per day.

Key Rating Drivers

Strengths

- **Experienced management**

Vinayak TMT was incorporated in 2008. The promoters, Mr. Shantilal Shah and Mr. Karsanbhai Patel have over 20 years of experience in the steel industry.

- **Above average financial risk profile**

The financial risk profile is above average marked by high net worth of Rs.33.07 crore as on 31 March, 2016 supported by unsecured loans of Rs.11.01 crore from promoters and shareholders which are subordinated to bank debt. The gearing (debt to equity ratio) stood at 0.76 times as on 31 March, 2016 as compared to 0.59 times as on 31 March, 2015. The interest coverage ratio (ICR) stood at 3.01 times for FY2016 as compared to 3.18 times for FY2015. The debt service coverage ratio (DSCR) stood at 1.52 times for FY2016 as compared to 1.92 times in the previous year.

- **Efficient working capital management**

Vinayak TMT's working capital operations are comfortable with Gross Current Assets (GCA) of 41 days. This is on account of comfortable inventory and debtor levels of 37 and 5 days respectively in FY2016. The cash credit limit utilisation has been comfortable at ~80 per cent in the last six months.

Weaknesses

- **Declining revenues**

The operating income declined to Rs.263.25 crore in FY2016 as compared to Rs.334.48 crore in FY2015 on account of decline in sales realisations. However, the company registered a volume growth of 7.81 percent in FY2016 over the previous year. Vinayak TMT has an installed capacity of 300 MT per day and the current capacity utilisation is 75 percent. The company has a reputed list of clients including Essar Steel India Limited, Sharpoorji Pallonji & Co. Ltd among others. As informed by the management, the operating income further declined by 10 percent both on account of decline in volume and price in FY2017. The company booked revenue of Rs.234 crore in FY2017 and expects

to book revenue of around Rs.350 crore in FY2018.

• **Fluctuating operating profitability**

The company's operating profitability has shown fluctuating trends in the past due to volatility in raw material prices of mainly metal and steel. The EBIDTA margins stood at 2.95 percent in FY2016 as compared to 1.99 percent in FY2015. The PAT margins are thin and stood at 1.15 percent in FY2016 as compared to 0.67 percent in FY2015. However, to improve operating margins, the company decided to manufacture MS Billets in FY2015-16 to be used in the production of TMT Bars. The total cost of the project was Rs.26.00 crore. Going ahead, the margins are expected to improve.

• **Vulnerability of margins to fluctuation in prices of metal and steel**

Vinayak TMT's profitability is susceptible to volatility in raw material prices of mainly metal and steel products. The company operates in a highly fragmented and competitive industry which consists of a large number of organised and unorganised players.

Analytical Approach

SMERA has considered the standalone financial and business risk profiles of the company to arrive at the rating.

Outlook: Stable

SMERA believes that Vinayak TMT will maintain a stable outlook over the medium term owing to its experienced management. The outlook may be revised to 'Positive' in case of healthy growth in revenue while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of steep decline in revenue or profit margins or deterioration in the financial risk profile and liquidity position.

About the Rated Entity - Key Financials

For FY2015-16, the company registered profit after tax (PAT) of Rs.2.06 crore on operating income of Rs.263.25 crore as against profit after tax of Rs.2.24 crore on operating income of Rs.334.48 crore in the previous year. The net worth stood at Rs.33.07 crore as on 31 March, 2016 as compared to Rs.29.55 crore as on 31 March, 2015.

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

None

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>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Not Applicable

***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	Not	Not	25.00	SMERA BBB- /

	Applicable	Applicable	Applicable		Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	11.20	SMERA BBB- / Stable
Proposed	Not Applicable	Not Applicable	Not Applicable	0.80	SMERA BBB- / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	5.00	SMERA A3

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ABOUT SMERA

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