

Press Release

VINAYAK TMT BARS PRIVATE LIMITED

May 08, 2019

Rating Upgraded



Total Bank Facilities Rated*	Rs. 42.00 Cr.
Long Term Rating	ACUITE BBB / Outlook: Stable (Upgraded from ACUITE BBB- / Stable)
Short Term Rating	ACUITE A3+ (Upgraded from ACUITE A3)

* Refer Annexure for details

Rating Rationale

Acuite has upgraded long-term rating to '**ACUITE BBB**' (read as **ACUITE triple B**) from '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and short term rating to '**ACUITE A3+**' (read as **ACUITE A three plus**) from '**ACUITE A3**' (read as **ACUITE A three**) to the Rs. 42.00 crore bank facilities of Vinayak TMT Bars Private Limited (VTPL). The outlook is '**Stable**'.

The rating upgrade is driven by significant growth in VTPL's revenue and cash accruals while sustaining steady debt coverage indicators. Further, Acuite believes that VTPL's capacity expansion is likely to augur well to its growth prospects in the near to medium term.

VTPL is an Ahmedabad-based company incorporated in 2008 by Mr. Karsanbhai Patel, Mr. Prakashbhai Karshanbhai Patel, Mr. Vasant Shivdasbhai Patel and Mr. Priyankkumar Rajubhai Parikh. VTPL manufactures TMT Bars and MS Billets and caters mainly to the real estate and infrastructure sectors. The current installed capacity for TMT Bars stands at 144000 tonnes per annum.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of VTPL to arrive at the rating.

Key Rating Drivers

Strengths

• Experienced management

VTPL is managed by Mr. Karsanbhai Patel, Mr. Prakashbhai Karshanbhai Patel, Mr. Vasant Shivdasbhai Patel and Mr. Priyankkumar Rajubhai Parikh. The Directors hold experience of more than a decade in the steel industry. Prior to incorporating VTPL, the Directors were engaged in other businesses in cold storage, manufacturing of ceramic, building construction materials, dyes and intermediates in Gujarat.

Acuite believes that VTPL will continue to benefit from healthy relationships with customers and suppliers in the iron and steel industry.

• Efficient working capital management

The working capital management of VTPL is efficient marked by Gross Current Asset (GCA) of 38 days in FY2019 (Provisional) as against 57 days in FY2018. The receivables period stood stable at 9 days in FY2019 (Provisional) as against 15 days in FY2018. The inventory holding period improved to 25 days in FY2019 (Provisional) as compared to 41 days in FY2018 on account of increased trading of excess inventory of Billets. The payables period has also remained stable at 8 days in FY2019 (Provisional) as against 9 days in FY2018. Further, the average bank limit utilisation stood at ~88 per cent for the last six months ended March 2019.

• Healthy financial risk profile

The financial risk profile of VTPL is healthy marked by moderate net worth, healthy debt protection measures and low gearing. The net worth stood at around Rs.36.41 crore as on 31 March, 2019 (Provisional) as against Rs.29.36 crore as on 31 March, 2018. The gearing of VTPL has improved to 1.16 times as on March 31, 2019 (Provisional) as compared to 1.58 times as on March 31, 2018. Total outside

Liabilities/Tangible Net Worth (TOL/TNW) stood healthy at 1.57 times as on 31 March, 2019 (Provisional) as against 1.95 times as on 31 March, 2018. Interest Coverage Ratio (ICR) has improved to 4.02 times in FY2019 (Provisional) as compared to 3.05 times in FY2018. Debt Service Coverage Ratio (DSCR) has also improved to 2.14 times in FY2019 (Provisional) from 1.81 times in FY2018. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.27 times as on 31 March, 2019 (Provisional) as against 0.20 times as on 31 March, 2018.

Acuité believes that the financial risk profile of VTPL will continue to remain healthy over the medium term on account of its growing scale of operations and moderately conservative leverage policy.

Weaknesses

• Susceptibility to fluctuation in raw material prices

VTPL's operating profitability has shown fluctuating trends in the past due to volatility in raw material prices of metal and steel. EBITDA margin stood at 3.47 percent in FY2019 (Provisional) as compared to 4.42 percent in FY2018. The PAT margins are thin and stood at 1.25 percent in FY2019 (Provisional) as compared to 1.17 percent in FY2018.

• Project implementation risk

VTPL is presently setting up a new rolling mill in their existing facility in Gandhinagar which is expected to increase their installed capacity to 360000 tonnes per annum. The total estimated project cost is around Rs.38.94 crore which is expected to be funded through equity of Rs.1.00 crore, internal accruals of ~Rs. 15.94 crore, unsecured loans of Rs.10.00 crore and term loan from bank of Rs.12.00 crore. VTPL has incurred around Rs.9.00 crore as on April, 2019 which has been funded entirely through own funds and the financial closure of the debt portion of the project is still pending. The commercial operation is expected to commence from July 2019. Hence, VTPL is exposed to project implementation risk as the completion of the project within the estimated time and cost will be a factor of key rating sensitivity.

• Intense competition and inherent cyclicity in the steel industry

The steel industry is highly fragmented and unorganised. VTPL is exposed to intense competitive pressure from large number of organised and unorganised players along with its exposure to inherent cyclical nature of the steel industry.

Liquidity Position:

VTPL has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. VTPL generated cash accruals of Rs.5.91-11.25 crore during the last three years through 2017-18, while its maturing debt obligations were in the range of Rs.2.65-2.97 crore over the same period. The cash accruals of VTPL are estimated to remain around Rs.13.91-19.49 crore during 2019-21, while its repayment obligations are estimated to be around Rs.3.60 crore.

VTPL has efficient working capital marked by gross current asset (GCA) days of 38 in FY 2018. This has led to moderate reliance on working capital borrowings, the cash credit limit in VTPL remains utilised at 88 percent during the last six months ended March 2019. VTPL maintains unencumbered cash and bank balances of Rs.0.54 crore as on March 31, 2018. The current ratio of VTPL stood moderate at 1.32 times as on March 31, 2018.

Acuité believes that the liquidity of VTPL is likely to remain adequate over the medium term on account of healthy cash accruals and no major repayment obligations over the medium term.

Outlook: Stable

Acuité believes that VTPL will maintain a 'Stable' outlook over the medium term owing to its experienced management. The outlook may be revised to 'Positive' in case of higher than expected growth in revenue while achieving sustained improvement in operating margins. 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

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	483.84	353.89	233.83
EBITDA	Rs. Cr.	16.78	15.64	10.31

PAT	Rs. Cr.	6.06	4.14	0.21
EBITDA Margin	(%)	3.47	4.42	4.41
PAT Margin	(%)	1.25	1.17	0.09
ROCE	(%)	16.06	15.87	7.83
Total Debt/Tangible Net Worth	Times	1.16	1.58	1.85
PBDIT/Interest	Times	4.02	3.05	2.22
Total Debt/PBDIT	Times	2.37	2.86	3.86
Gross Current Assets (Days)	Days	38	57	64

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

Not applicable.

Any other information

None.

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.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
28-Jul-2018	Cash Credit	Long Term	25.00	ACUITE BBB- (Indicative)
	Term Loan	Long Term	11.20	ACUITE BBB- (Indicative)
	Proposed Long Term Loan	Long Term	0.80	ACUITE BBB- (Indicative)
	Bank Guarantee	Short Term	5.00	ACUITE A3 (Indicative)
26-May-2017	Cash Credit	Long Term	25.00	ACUITE BBB- / Stable (Assigned)
	Term Loan	Long Term	11.20	ACUITE BBB- / Stable (Assigned)
	Proposed Long Term Loan	Long Term	0.80	ACUITE BBB- / Stable (Assigned)
	Bank Guarantee	Short Term	5.00	ACUITE A3 (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	25.00*	ACUITE BBB/Stable (Upgraded from ACUITE BBB-/Stable)
Term loans	Not Applicable	Not Applicable	Not Applicable	11.20	ACUITE BBB /Stable (Upgraded from ACUITE BBB-/Stable)

Proposed	Not Applicable	Not Applicable	Not Applicable	0.80	ACUITE BBB /Stable (Upgraded from ACUITE BBB-/Stable)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A3+ (Upgraded from ACUITE A3)

*Letter of Credit as sublimit under Cash Credit of Rs.5.00

Contacts

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About Acuité Ratings & Research:

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