

Press Release

Vinayak TMT Bars Private Limited

October 09, 2020

Rating Reaffirmed and Assigned



Total Bank Facilities Rated*	Rs. 59.96 Cr. (Enhanced from Rs. 42.00)
Long Term Rating	ACUITE BBB/ Outlook: Stable (Reaffirmed and Assigned)
Short Term Rating	ACUITE A3+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) and the short-term rating of '**ACUITE A3+**' (read as **ACUITE A three plus**) on the Rs. 58.33 crore bank facilities of Vinayak TMT Bars Private Limited (VTPL). The outlook is '**Stable**'.

Further, Acuite has assigned the long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) on the Rs. 1.63 crore bank facilities of VTPL.

VTPL is an Ahmedabad-based company incorporated in 2008, by Mr. Karsanbhai Patel and others. VTPL manufactures TMT Bars and MS Billets and caters primarily to the real estate and infrastructure sectors. The company had undertaken a capacity expansion plan in FY2019-20 and has increased its capacity for TMT bars to 300000 tons per annum from 144000 tons per annum.

Analytical Approach

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

Key Rating Drivers

Strengths

• Experienced management

VTPL is Ahmedabad based TMT bar manufacturer. It sells its products under the brand 'Vinayak 500'. It has a dealer network of around 35 dealers primarily in Gujarat. It was incorporated in 2008. It is managed by Mr. Karsanbhai Patel, Mr. Prakashbhai Karshanbhai Patel, Mr. Vasant Shivdasbhai Patel and Mr. Priyankumar 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 its experienced management in the iron and steel industry and long term relationships with dealers.

• Healthy financial risk profile

The financial risk profile of VTPL is healthy marked by moderate net worth, healthy debt protection measures and moderate gearing. The net worth stood at Rs.39.83 crore as on 31 March, 2020 (Provisional) as against Rs. 35.96 crore as on 31 March, 2019. The gearing of VTPL stood at 1.46 times as on March 31, 2020 (Provisional) as compared to 1.17 times as on 31 March 2019. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood comfortable at 1.87 times as on 31 March, 2020 (Provisional) as against 1.59 times as on 31 March, 2019. Interest Coverage Ratio (ICR) declined to 2.84 times in FY2020 (Provisional) as compared to 3.89 times in FY2019 on account of decline in profitability. Debt Service Coverage Ratio (DSCR) stood at 1.79 times for FY2020 (Provisional) from 2.08 times in FY2019. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.16 times as on 31 March, 2020

(Provisional) as against 0.26 times as on 31 March, 2019.

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

• **Efficient working capital management**

The working capital management of VTPL is efficient, marked by Gross Current asset days of 49 in FY2020 (Provisional) as against 38 days in FY2019. The receivables period stood at 13 days in FY2020 (Provisional) as against 9 days in FY2019. The inventory holding period improved to 26 days in FY2020 (Provisional) as compared to 24 days in FY2019. The payables period has stood at 12 days in FY2020 (Provisional) as against 8 days in FY2019. Further, the average bank limit utilization stood at ~90 per cent for the last three months ended in March 2020.

Weaknesses

• **Susceptibility to volatility to steel prices**

VTPL's operating income declined to Rs. 437.52 crore in FY2020 (Provisional) and Rs. 483.45 crore in FY2019 although the production has been stable. This is primarily because VTPL's operating performance is susceptible to volatility in steel prices. The company sold at an average selling price of ~ Rs. 35000 per tonne in FY2020 (Provisional) against Rs. 40000 in the previous year. Operating profit margin has also been fluctuating. It stood at 2.95 percent in FY2020 (Provisional) as compared to 3.39 percent in FY2019. Going forward, profitability is expected to improve to some extent as the company has installed automated rolling milling, which will reduce labour cost and wastage.

Acuite believes that VTPL's ability to maintain its profitability in volatile steel prices will be a key rating sensitivity.

• **Intense competition and inherent cyclicality in the steel industry**

The steel industry is heavily fragmented and unorganized. VTPL is exposed to intense competitive pressures from a large number of organized and unorganized players along with its exposure to inherent cyclical nature of the steel industry.

Liquidity Position: Adequate

VTPL has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. VTPL generated cash accruals in the range Rs. 9.15 to 9.31 crore during the last three years through 2019-20, while its maturing debt obligations were in the range of Rs.2.84 - 2.97 crore over the same period. The cash accruals of VTPL are expected to remain around Rs. 9.02 -15.01 crore during 2020-23 while its repayment obligation is estimated to be around Rs. 3.00 crore during the same period. VTPL has efficient working capital management marked by gross current asset (GCA) days of 49 in FY 2020 (Provisional) and 38 in FY2019. This has led to moderate reliance on working capital borrowings, the cash credit limit in VTPL remains utilized at ~80% percent during the last six months ended August 2020. VTPL maintains unencumbered cash and bank balances of Rs. 0.90 crore as on March 31, 2020 (Provisional).

Rating Sensitivities

- Ability to maintain profitability and scale of operations will be a key rating sensitivity.
- Any elongation in the working capital cycle will be key a monitorable.

Material Covenants

None

Outlook: Stable

Acuite believes that VTPL will maintain a stable outlook over the medium term owing to its experienced management and healthy financial risk profile. The outlook may be revised to 'Positive' in case of higher than expected growth in revenue while maintaining operating margins. Conversely, the outlook may be revised to 'Negative' in case of a steep decline in revenue or operating margins.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	437.52	483.45
Profit after Tax (PAT)	Rs. Cr.	3.87	5.61
PAT Margin	(%)	0.89	1.16
Total Debt/Tangible Net Worth	Times	1.46	1.17
Total Debt/PBDIT	Times	2.84	3.89

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

Not applicable

Any other information

None

Applicable Criteria

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

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore.)	Ratings/Outlook
29-Sep-2020	Cash Credit	Long Term	25.00	ACUITE BBB/Stable (Reaffirmed)
	Term Loan	Long Term	9.20	ACUITE BBB (Withdrawn)
	Term Loan	Long Term	10.67	ACUITE BBB/Stable (Assigned)
	Term Loan	Long Term	1.33	ACUITE BBB/Stable (Reaffirmed)
	Proposed Long Term Loan	Long Term	0.80	ACUITE BBB (Withdrawn)
	Bank guarantee	Short Term	5.00	ACUITE A3+ (Reaffirmed)
08-May-2019	Cash Credit	Long Term	25.00*	ACUITE BBB/Stable (Upgraded)
	Term Loan	Long Term	11.20	ACUITE BBB/Stable (Upgraded)
	Proposed Long Term Loan	Long Term	0.80	ACUITE BBB/Stable (Upgraded)
	Bank guarantee/Letter of Guarantee	Short Term	5.00	ACUITE A3+ (Upgraded)
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/Letter of Guarantee	Short Term	5.00	ACUITE A3 (Indicative)
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*Cash Credit has sub-limit of Letter of credit for Rs. 5.00 crore

*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	32.00 (Enhanced from 25.00)	ACUITE BBB/Stable (Reaffirmed)
Term Loan	October 15, 2019	9.00	October 14, 2025	10.67	ACUITE BBB/Stable (Reaffirmed)
Term Loan	October 15, 2019	9.00	October 14, 2025	1.33	ACUITE BBB/Stable (Assigned)
Term Loan	February 19, 2018	9.00	February 18, 2023	1.33	ACUITE BBB/Stable (Reaffirmed)
Term Loan	August 09, 2018	9.00	August 08, 2025	0.30	ACUITE BBB/Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	2.33	ACUITE BBB/Stable (Reaffirmed)
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	12.00 (Enhanced from 5.00)	ACUITE A3+ (Reaffirmed)

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About Acuite Ratings & Research:

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