

## Press Release

VINAYAK TMT BARS PRIVATE LIMITED

August 19, 2023

Rating Downgraded and Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Ter
Bank Loan Ratings	47.96	ACUITE BBB   Stable   Downgraded	-
Bank Loan Ratings	12.00	-	ACUITE A2   Reaffirmed
Total Outstanding Quantum (Rs. Cr)	59.96	-	-

## Rating Rationale

Acuite has downgraded in the long-term rating to 'ACUITE BBB (read as ACUITE Triple B)' from 'ACUITE BBB+ (read as ACUITE Triple B Plus)' and reaffirmed the short-term rating of 'ACUITE A2' (read as ACUITE A two) on the Rs. 59.96 crore bank facilities of Vinayak TMT Bars Private Limited (VTPL). The outlook is 'Stable'.

## Rationale for Rating Downgrade

The downgrade in the rating reflects continuous deterioration in profitability of the company reflected by declining operating profit margin from 6.79 percent in FY2021 to 2.18 percent in FY2022 and to 2.09 percent in FY2023. Furthermore, the rating is also constrained on account of execution risk associated with new capex plan of the company for setting up solar power plant towards captive consumption worth Rs.61 Cr. The total cost of the project is expected to be funded by promoter's contribution of Rs.19 Cr and term loan from bank to the tune of Rs.42 Cr which is yet to be sanctioned reflecting funding risk towards the project. However, the rating draws comfort from improvement in revenue from operations supported by increase in production levels, adequate liquidity, moderate financial risk profile, experienced management and efficient working capital management.

## About the Company

Gujarat based company incorporated in 2008, by Mr. Shantilal Shah, Mr. Karsanbhai Patel, and five others. Vinayak TMT Bars Private Limited engages in manufacturing of TMT Bars and MS Billets. Company primarily caters to customers in real estate, industrial, infrastructure sector. VTPL sells its products under the brand name 'Vinayak 500'. The company sells its products through its network of dealers. It has a network of ~35 dealers. It is currently promoted by Mr. Karshanbhai Patel, Mr. Prakashbhai Karshanbhai Patel, Mr. Vasant Shivdasbhai Patel and Mr. Priyankumar Rajubhai Parikh.

## Analytical Approach

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

## Key Rating Drivers

### Strengths

>Established track record of operations and 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. 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. The company has been able to establish long standing relationship with its client owing to extensive experience of the management. The turnover improved and stood at around Rs.917.03 crore in FY2023 as against Rs.805.00 crore in FY2022 due to increase in sales of TMT bars domestically. Acuté believes that VTPL will continue to benefit from its experienced management in the iron and steel industry and long term relationships with dealers.

#### > Efficient working capital management

The working capital management of VTPL is efficient, marked by Gross Current asset days of 49 days as on March 31, 2023 as against 41 days as on March 31, 2022. The receivables days stood at 13 days as on March 31, 2023 as against 16 days as on March 31, 2022. The company generally gives a credit period of 10 days to its customers. The inventory holding period stood at 32 days as on March 31, 2023 as compared to 22 days as on March 31, 2022. The company generally maintains an inventory holding period of 10-15 days on average. The payables period has stood at 13 days as on March 31, 2023 as against 14 days as on March 31, 2022. However, the company generally allows a credit period of 15-30 days from its suppliers. Further, the average bank limit utilization ranged around ~70 per cent for the last six months ended in March 2023.

Acuté believes that VTPL's working capital operations will continue to remain efficient over the medium term.

#### > Moderate financial risk profile

The financial risk profile of VTPL is moderate marked by moderate net worth, comfortable debt protection measures and modest gearing. The net worth stood at Rs.66.63 Cr as on 31 March, 2023 as against Rs. 59.62 Cr as on 31 March, 2022. The improvement is primarily on account of accretion of profits to reserves. The total debt stood at Rs. 70.36 Cr as on March 31, 2023 out of which Rs. 28.73 Cr was unsecured loans from promoters/directors, Rs.12.10 Cr was long term borrowings, Rs. 27.06 Cr short term debt and Rs.2.47 Cr was CPLTD. The gearing of VTPL stood at 1.06 times as on March 31, 2023 as against 0.68 times as on 31 March 2022. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.57 times as on 31 March, 2023 as against 1.28 times as on 31 March, 2022. Interest Coverage Ratio (ICR) stood at 3.70 times in FY2023 as compared to 3.79 times in FY2022. Debt Service Coverage Ratio (DSCR) stood at 2.26 times for FY2023 as against 2.18 times in FY2022. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.20 times as on 31 March, 2023 as against 0.30 times as on 31 March, 2022.

Acuté believes that the financial risk profile of VTPL will be the key rating sensitive going ahead.

#### **Weaknesses**

##### > Thin Profitability margins

VTPL's operating margins and net profit margins stood at 2.09 percent and 0.78 percent respectively in FY2023 as against 2.18 percent and 0.66 percent respectively in FY2022 and 6.79 percent and 3.02 percent respectively in FY2021. The decline in margins in FY2022 is primarily because of higher raw material prices. While, the improvement in margins in FY2021 was mainly on account of reduction in power and fuel costs. The Company's profitability is susceptible to fluctuations in raw material prices.

Acuté believes that VTPL's ability to maintain its profitability will remain a key rating sensitive.

##### > Intense competition and inherent cyclicity 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.

#### **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

## 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. 12-24 Cr during the last 3 years through 2021-2023, while its maturing debt obligations were in the range of Rs.2.47 – 2.87 Cr over the same period. The cash accruals of VTPL are expected to remain around ~Rs.17-20 crore during 2024-25 while its repayment obligation is estimated to be around ~Rs.4-6 crore during the same period. VTPL has efficient working capital management marked by gross current asset (GCA) days of 49 in FY 2023 and 41 in FY2022. The average bank limit utilization ranged around ~70 per cent for the last six months ended in March 2023. The current ratio stood at 1.96 times as on March 31, 2022.

Acuité believes that liquidity profile is expected to remain adequate on account of adequate cash accruals against moderate repayment obligations.

### Outlook: Stable

Acuité believes that VTPL will maintain a 'stable' outlook over the medium term owing to its experienced management and long track record of operations. 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 or significant deterioration in the financial risk profile of the company.

## Other Factors affecting Rating

None

## Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	917.03	805.00
PAT	Rs. Cr.	7.20	5.28
PAT Margin	(%)	0.78	0.66
Total Debt/Tangible Net Worth	Times	1.06	0.68
PBDIT/Interest	Times	3.70	3.79

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

Not Available

### Any other information

None

### Applicable Criteria

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

### Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on [www.acuite.in](http://www.acuite.in).

## Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
06 Jun 2022	Bank Guarantee	Short Term	7.00	ACUITE A2 (Upgraded from ACUITE A3+)
	Proposed Bank Facility	Long Term	2.33	ACUITE BBB+   Stable (Upgraded from ACUITE BBB   Stable)
	Cash Credit	Long Term	7.00	ACUITE BBB+   Stable (Upgraded from ACUITE BBB   Stable)
	Term Loan	Long Term	10.67	ACUITE BBB+   Stable (Upgraded from ACUITE BBB   Stable)
	Term Loan	Long Term	1.33	ACUITE BBB+   Stable (Upgraded from ACUITE BBB   Stable)
	Term Loan	Long Term	1.33	ACUITE BBB+   Stable (Upgraded from ACUITE BBB   Stable)
	Bank Guarantee	Short Term	5.00	ACUITE A2 (Upgraded from ACUITE A3+)
	Cash Credit	Long Term	25.00	ACUITE BBB+   Stable (Upgraded from ACUITE BBB   Stable)
	Term Loan	Long Term	0.30	ACUITE BBB+   Stable (Upgraded from ACUITE BBB   Stable)
09 Oct 2020	Term Loan	Long Term	0.30	ACUITE BBB   Stable (Assigned)
	Cash Credit	Long Term	32.00	ACUITE BBB   Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	2.33	ACUITE BBB   Stable (Reaffirmed)
	Term Loan	Long Term	10.67	ACUITE BBB   Stable (Reaffirmed)
	Term Loan	Long Term	1.33	ACUITE BBB   Stable (Reaffirmed)
	Bank Guarantee	Short Term	12.00	ACUITE A3+ (Reaffirmed)
	Term Loan	Long Term	1.33	ACUITE BBB   Stable (Assigned)
29 Sep 2020	Term Loan	Long Term	9.20	ACUITE BBB (Withdrawn)
	Cash Credit	Long Term	25.00	ACUITE BBB   Stable (Reaffirmed)
	Proposed Long Term Loan	Long Term	0.80	ACUITE BBB (Withdrawn)
	Term Loan	Long Term	1.33	ACUITE BBB   Stable (Reaffirmed)
	Bank Guarantee	Short Term	5.00	ACUITE A3+ (Reaffirmed)
	Term Loan	Long Term	10.67	ACUITE BBB   Stable (Assigned)

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	12.00	ACUITE A2   Reaffirmed
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	32.00	ACUITE BBB   Stable   Downgraded
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	1.39	ACUITE BBB   Stable   Downgraded
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	5.06	ACUITE BBB   Stable   Downgraded
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	9.51	ACUITE BBB   Stable   Downgraded

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### About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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