

Press Release

VIVAN STEELS PRIVATE LIMITED (VSPL)

March 23, 2018

Rating Assigned



| | |
|-------------------------------------|------------------------------|
| Total Bank Facilities Rated* | Rs. 12.70 Crore |
| 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 triple B minus**) and short term rating of '**SMERA A3**' (**read as SMERA A three**) on the Rs. 12.70 crore bank facilities of VIVAN STEELS PRIVATE LIMITED. The outlook is '**Stable**'.

Incorporated in 2005, VSPL is a Gujarat based company promoted by Mr. Indravadan Patel. The company was initially engaged in trading of round bars and from 2014 VSPL started manufacturing of alloy round bars, flat bars, stainless steel bars with a capacity of one lakh tons per annum.

Key rating drivers

Strengths

Experienced management

VSPL was incorporated in 2005 and benefits from established relations of the promoter with suppliers and customers. The Promoter, Mr. Indravadan Patel has over two decades of experience in the steel industry through other entities. The Directors, Mr. Shalin Patel and Mr. Sahil Patel have over a decades experience in the industry.

Well managed working capital cycle

The working capital of VSPL is well managed as reflected in Gross Current Assets of 51 days as on 31 March, 2017 as against 38 days as on 31 March, 2016. The company provides a maximum credit of 30 days to its customers and maintains minimal inventory days of 20 and debtors of 27 days as on 31 March, 2017.

Growing scale of operations and improving profitability

VSPL's revenues have shown improving trend over the years as reflected in revenue of Rs. 153.95 crore in FY2017 as against Rs. 134.68 crore in FY2016. The company has registered revenue of Rs. 181.00 crore from April to February 2018. The operating margins stood at 3.59 percent in FY2017 as against 2.25 percent in FY2016.

Weaknesses

Moderate financial risk profile:

The financial risk profile of VSPL has shown improvement due to comfortable net cash accruals in the past two years. The networth has increased to Rs. 7.35 crore as on 31 March, 2017 as against Rs. 5.15 crore as on 31 March, 2016. The gearing stood at 1.97 times as on 31 March, 2017 as against 2.03 times as on 31 March, 2016. The total debt of Rs. 14.49 crore as on 31 March, 2017 comprises term loans of Rs. 3.60 crore, unsecured loans of Rs. 6.67 crore and working capital loan of Rs. 4.21 crore. The Interest Coverage Ratio stood at 4.58 times for FY2017 as against 5.35 times for FY2016.

SMERA believes that the financial risk profile of VSPL will improve over near to medium term on the back of completed capex, reduced power cost and better yield on its products.

Volatility in raw material prices and competitive industry:

The revenue margins of the company are susceptible to volatility in commodity prices. Any significant changes in commodity prices over supply would have an impact on the margins of the company. VSPL operates in a highly competitive industry thereby putting pressure on capacity utilization and pricing power.

Analytical Approach

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

Outlook- Stable

SMERA believes VSPL will maintain a stable outlook over medium term on the back of experienced management. The outlook may be revised to 'Positive' in case the company registers higher than expected growth in revenues and profitability. Conversely, the outlook may be revised to 'Negative' in case of elongation in working capital requirements thereby increasing the pressure on the margins.

About the Rated Entity - Key Financials

| | Unit | FY17 (Actual) | FY16 (Actual) | FY15 (Actual) |
|-------------------------------|---------|---------------|---------------|---------------|
| Operating Income | Rs. Cr. | 153.95 | 134.68 | 50.80 |
| EBITDA | Rs. Cr. | 5.53 | 3.03 | 0.59 |
| PAT | Rs. Cr. | 2.20 | 1.05 | 0.09 |
| EBITDA Margin | (%) | 3.59 | 2.25 | 1.16 |
| PAT Margin | (%) | 1.43 | 0.78 | 0.17 |
| ROCE | (%) | 23.97 | 14.73 | 7.63 |
| Total Debt/Tangible Net Worth | Times | 1.97 | 2.03 | 6.56 |
| PBDIT/Interest | Times | 4.58 | 5.35 | 1.66 |
| Total Debt/PBDIT | Times | 2.59 | 3.14 | 18.30 |
| Gross Current Assets (Days) | Days | 51 | 38 | 117 |

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

None

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smerra.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smerra.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smerra.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.smerra.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. Crore) | Ratings/Outlook |
|------------------------------------|------------------|----------------|----------------|-------------------------------|---------------------|
| Term loans | Not Applicable | Not Applicable | Not Applicable | 0.73 | SMERA BBB- / Stable |
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 11.50 | SMERA BBB- / Stable |
| Bank guarantee/Letter of Guarantee | Not Applicable | Not Applicable | Not Applicable | 0.47 | SMERA A3 |

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ABOUT SMERA

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