

Press Release

VARUN PIPING SYSTEMS

March 29, 2018

Rating Assigned



| | |
|-------------------------------------|----------------------------|
| Total Bank Facilities Rated* | Rs. 14.50 Cr. |
| Long Term Rating | SMERA BB / Outlook: Stable |
| Short Term Rating | SMERA A4+ |

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BB**' (read as **SMERA BB**) and short term rating of '**SMERA A4+**' (read as **SMERA A four plus**) on the Rs. 14.50 crore bank facilities of VARUN PIPING SYSTEMS. The outlook is '**Stable**'.

Karnataka based Varun Piping Systems (VPS) was established in the year 2016 by merging four existing partnership concerns namely; M/S Varun Plastics M/s Ganga Plastics M/s Sindhu Plastics and M/s Plastubes Corporation Inc. The firm is engaged in the business of manufacturing P.V.C pipes, fittings and Suction Hose and HDPE Pipes and fittings. The firm has an installed capacity of producing 300 Kg per hour for PVC pipes and 800 Kg per hour for HDPE pipes.

Key Rating Drivers

Strengths

- **Experienced management and long track record of operation**

VPS was established in the year 2016 by merging the existing partnership firms who have been in the same line of business since 1987. The partners of the firm have an extensive experience of more than three decades in the plastic industry which has helped the firm in maintaining healthy relations with its customers and suppliers.

- **Moderate financial risk profile**

VPS has moderate financial risk profile marked by tangible net worth of Rs. 8.22 crore as on 31 March 2017. The adjusted gearing stood at 1.24 times as on 31 March 2017. Total debt of Rs. 9.80 crore consists of term loans of Rs. 5.15 crore and working capital borrowings of Rs. 4.65 crore as on 31 March 2017. The Interest Coverage Ratio (ICR) stood at 2.33 times for FY2017. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.86 times as on 31 March 2017. The Net Cash Accruals/Total Debt (NCA/TD) stood at 0.12 times in FY2017.

Weaknesses

- **Highly fragmented and competitive nature of operations**

The firm operates in a highly fragmented industry with a large number of players in the organised and unorganised sector limiting the bargaining power with customers.

- **Partnership constitution of the firm**

The financial profile is susceptible to inherent risk of capital withdrawal owing to the partnership constitution of the firm.

Analytical Approach

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

Outlook: Stable

SMERA believes that VPS will maintain a stable risk profile over the medium term on account of its experienced management. The outlook may be revised to Positive in case of sustained and significant growth in operating income while improving its profit margins. The outlook may be revised to Negative in case of sustained decline in profitability metrics and/or further increase in financial leverage metrics of the firm.

About the Rated Entity - Key Financials

| | Unit | FY17 (Actual) | FY16 (Actual) | FY15 (Actual) |
|-------------------------------|---------|---------------|---------------|---------------|
| Operating Income | Rs. Cr. | 39.10 | 0.00 | 0.00 |
| EBITDA | Rs. Cr. | 2.47 | 0.00 | 0.00 |
| PAT | Rs. Cr. | 0.36 | 0.00 | 0.00 |
| EBITDA Margin | (%) | 6.32 | 0.00 | 0.00 |
| PAT Margin | (%) | 0.93 | 0.00 | 0.00 |
| ROCE | (%) | 17.90 | 0.00 | 0.00 |
| Total Debt/Tangible Net Worth | Times | 1.24 | 0.00 | 0.00 |
| PBDIT/Interest | Times | 2.33 | 0.00 | 0.00 |
| Total Debt/PBDIT | Times | 4.10 | 0.00 | 0.00 |
| Gross Current Assets (Days) | Days | 127 | 0 | 0 |

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

Not Applicable

Any other information

Not Applicable

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 |
|------------------------|------------------|----------------|----------------|-----------------------------|-------------------|
| Overdraft | Not Applicable | Not Applicable | Not Applicable | 7.05 | SMERA BB / Stable |
| Term loans | Not Applicable | Not Applicable | Not Applicable | 4.45 | SMERA BB / Stable |
| Letter of credit* | Not Applicable | Not Applicable | Not Applicable | 3.00 | SMERA A4+ |

* Sublimit against buyer's credit/ letter of comfort of Rs. 1.00 crore.

Contacts

Analytical

Rating Desk

| | |
|---|---|
| <p>Suman Chowdhury President - SMERA Bond Ratings Tel: 022-67141107 suman.chowdhury@smera.in</p> <p>Manmitha Sodhi Analyst - Rating Operations Tel: 022-67141133 Manmitha.Sodhi@smera.in</p> | <p>Varsha Bist Manager - Rating Desk Tel: 022-67141160 varsha.bist@smera.in</p> |
|---|---|

ABOUT SMERA

SMERA Ratings Limited is a joint initiative of SIDBI, D&B and leading public and private sector banks in India. SMERA is registered with SEBI, accredited by RBI as an External Credit Assessment Institution (ECAI), under BASEL-II norms for undertaking Bank Loan Ratings. SMERA Bond Ratings is a division of SMERA Ratings Limited responsible for ratings of bank facilities, and capital market/money market debt instruments such as Bonds, Debentures, Commercial Papers, Fixed Deposits, Certificate of Deposits etc.. For more details, please visit www.smera.in.

Disclaimer: *A SMERA rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. SMERA ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, SMERA, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. SMERA is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. SMERA ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.smera.in) for the latest information on any instrument rated by SMERA.*