

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 Ratings Limited

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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.

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Analytical

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ABOUT SMERA

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