

Press Release

Varun Piping Systems

June 11, 2019

Rating Reaffirmed and Assigned



Total Bank Facilities Rated*	Rs. 15.50 Cr.#
Long Term Rating	ACUITE BB / Outlook: Stable
Short Term Rating	ACUITE A4+

#Refer Annexure for details

Rating Rationale

Acuite has reaffirmed long-term rating of '**ACUITE BB**' (read as **ACUITE double B**) and the short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs. 14.50 crore bank facilities of Varun Piping Systems (VPS). The outlook is '**Stable**'.

Further, Acuite has assigned long-term rating of '**ACUITE BB**' (read as **ACUITE double B**) and the short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs. 1.00 crore bank facilities of VPS. 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.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of Varun Piping Systems to arrive at the rating.

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. 9.41 crore as on 31 March 2019(Provisional). The adjusted gearing stood at 0.84 times as on 31 March 2019(Provisional). Total debt of Rs. 7.89 crore consists of term loans of Rs. 2.56 crore and working capital borrowings of Rs. 5.33 crore as on 31 March 2019(Provisional). The Interest Coverage Ratio (ICR) stood at 1.86 times for FY2019(Provisional). The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.43 times as on 31 March 2019(Provisional). The Net Cash Accruals/Total Debt (NCA/TD) stood at 0.13 times in FY2019(Provisional).

Weaknesses

Highly fragmented and competitive nature of operations

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.

Liquidity Position

VPS has moderate liquidity marked by adequate net cash accruals to its maturing debt obligations. The firm generated cash accruals of Rs.0.99 to 1.20 crore during the last three years through 2018-19(Provisional), while its maturing debt obligations were in the range of Rs.0.60 crore. The cash accruals of the firm are estimated to improve around Rs.1.55 – 2.30 crore during 2020-22, while its repayment obligations are estimated to be around Rs. 0.60 crore. The GCA days are efficient marked by 85 days in FY2019 (Provisional) against 116 days in FY2018. The inventory and debtor days stood moderate at 28 and 49 days respectively as on 31 March 2019 (Provisional). The firm's reliance on working capital facilities has remained at above 90 percent. The firm maintains unencumbered cash and bank balances of Rs.0.02 crore as on March 31, 2019 (Provisional). The current ratio of the firm stood at 1.26 times as on March 31, 2019 (Provisional). Acuite believes that the liquidity of the firm is likely to remain healthy over the medium term on account of healthy cash accrual and no major repayments over the medium term.

Outlook: Stable

ACUITE 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 profitability 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	FY19 (Prov.)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	57.86	46.14	39.10
EBITDA	Rs. Cr.	2.39	2.51	2.47
PAT	Rs. Cr.	0.28	0.34	0.36
EBITDA Margin	(%)	4.13	5.45	6.32
PAT Margin	(%)	0.48	0.73	0.93
ROCE	(%)	9.37	9.82	17.90
Total Debt/Tangible Net Worth	Times	0.84	1.21	1.23
PBDIT/Interest	Times	1.86	1.96	2.33
Total Debt/PBDIT	Times	3.23	4.12	4.10
Gross Current Assets (Days)	Days	85	116	127

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

None

Any other information

Not Applicable

Applicable Criteria:

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-6.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
29-Mar-2018	Overdraft	Long Term	7.05	ACUITE BB / Stable (Assigned)
	Term loans	Long Term	4.45	ACUITE BB / Stable (Assigned)
	Letter of Credit	Short Term	3.00	ACUITE A4+ (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Overdraft	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE BB / Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE BB / Stable (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE A4+ (Reaffirmed)

*The issuer did not co-operate; based on best available information.

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About Acuité Ratings & Research:

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