

Press Release

Viraj Profiles Limited

June 06, 2019



Rating Assigned

Total Bank Facilities Rated*	Rs. 2791.29 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable
Short Term Rating	ACUITE A3

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) and short term rating of '**ACUITE A3**' (**read as ACUITE A three**) on the Rs. 2791.29 crore bank facilities of Viraj Profiles Limited (VPL). The outlook is '**Stable**'.

VPL, incorporated in 1996 is engaged in the manufacturing of stainless steel billets, wire rods, profiles, and sections like angles, flat bars, channels, wires, fasteners, and bright bars etc. Its products have applications across diverse industries including petrochemicals, oil pipe lines, ships, food processing, structural designs, high utensils, springs, cables, pressure vessels, liquid storage terminals, liquid cargo ships & surgical instruments. The company has installed melting capacity of 5, 28,000 Metric Tonnes (MT) and processing capacity of 6, 35,900 MT.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Established track record & experienced promoters**

The company is headed by Mr. Neeraj Kochhar having more than two decades of experience in manufacturing of stainless steel long products. The promoter had started Stainless Steel Melting (Billets) unit in the name of M/s. Viraj Alloys Ltd (VAL) in the year 1992. Then in 1995 they started Viraj Impo-expo Ltd for manufacturing Bright Bars (VIEL) & Viraj Forgings Ltd for manufacturing Flanges (VFL) then in year 2000, they started Viraj Profiles Ltd for manufacturing Sections and Profiles, in 2001 they started VSL Wires Ltd. for wires manufacturing. In 2005 VAL & VFL merged in to VAL. In November 2006 under slump sale mechanism industrial undertakings of VAL, VIEL & VSL transferred to VPL. From April, 2007 VAL, VIEL and VSL merged into VPL.

Further, the day-to day operations of the company are looked after by a team of qualified and experienced professionals. The long standing presence of the promoters has enabled the company to forge healthy relationships with customers and suppliers. The company derives more than 90 per cent of its revenues from exports. It has wide clientele base across European countries. The products manufactured by VPL finds application in industries such as petrochemicals, oil pipe lines, ships, food processing, structural designs, high utensils, springs, cables, pressure vessels, liquid storage terminals, liquid cargo ships & surgical instruments.

Acuité believes that VPL will continue to enjoy the benefit of experienced management and established clientele base over the near to medium term..

- **Integrated nature of operations**

VPL has a fully integrated production facility across the value chain - for manufacturing from melting shop to engineering products and in house logistic facilities. The company has furnace melting division for MS Billets, section rolling mill for production of various fasteners, flanges, etc. The plant is located at Tarapur MIDC, Dist. - Palghar Maharashtra.

The plant has installed melting capacity of 5, 28,000 Metric Tonnes (MT) and processing capacity of 6, 35,900 MT. The processing (value addition) is done at first level, second level and third level downstream units. In first level downstream units mainly wire rods are produced. Further, in second and third level downstream units other value added products are manufactured. Major part of the production at first level downstream units is transferred for value addition to third level downstream for production of engineering products after second level downstream process.

The integrated nature of operations result in economies of scale and maintaining cost competitiveness which is critical for profitability in the highly competitive iron and steel industry.

Weaknesses

- **Significant funds blocked in land assets impacting financial risk profile**

VPL has a tangible net worth of Rs.1545.85 crore (Provisional) as on 31 March, 2019. The company has investments in land worth Rs.1007.89 crore (Provisional). These investments are legacy investments which have been in the company's balance sheet from past 3-4 years. The company's current ratio over the past 4 years (assuming land assets as non-current assets) has always remained below 1.00 times indicating a portion of short term funds has been utilised to fund long term assets. Significant investments in these land have inhibited the company's ability to deleverage and utilise these funds for working capital purposes. The company has plans to monetize some of the land parcels in near future.

The ability to monetize these land parcels, magnitude of this monetization and utilisation of the said proceeds to deleverage will be a key monitorable.

- **Protectionist policies in major markets**

VPL manufactures wide range of products including stainless steel billets, wire rods, profiles, and sections like angles, flat bars, channels, wires, fasteners, and bright bars etc. Its products have applications across diverse industries including petrochemicals, oil pipe lines, ships, food processing, structural designs, high utensils, springs, cables, pressure vessels, liquid storage terminals, liquid cargo ships & surgical instruments. VPL generates ~92.00 per cent of its revenues from export sales. Initially the company was exporting to US market. However, after US restrictive measures on VPL it focused on Europe.

European Union (EU) has also proposed the policy to support its domestic sales. VPL is currently exporting to EU however, excessive pressures from the domestic industry of the key markets could impact the operating performance of the company. Also, US sanctions on certain other countries like Iran and policies towards China could result in increased focus of these countries to Europe. This in turn will result in high competition in the industry for players like VPL thereby affecting margins and cash flows.

Liquidity Position

VPL has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.225.79 crore for FY2019, while it's maturing debt obligation was Rs. 393.65 crore over the same period. The debt obligation of Rs. 393.65 crore includes prepaid amount of term loans. The term loans were prepaid through land monetizing. The company's operations are moderately working capital intensive as marked by gross current asset (GCA) days of 123 in FY 2019. This has led to high reliance on working capital borrowings, the cash credit limit in the company remains utilized at ~95 percent during the last 6 months period ended April 2019. The company maintains unencumbered cash and bank balances of Rs.67.90 crore as on March 31, 2019. The current ratio of the company stand low at 0.77 times as on March 31, 2019. Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy cash accrual and no major repayments over the medium term.

Outlook: Stable

Acuite believes that VPL's outlook will remain 'Stable' over the medium term on the back of the company's established position in steel segment and long standing relationship with clients. The outlook may be revised to 'Positive' in case of significant monetization of non-core assets and utilisation of proceeds to deleverage. Conversely, the outlook will be revised to 'Negative' in case of deterioration in debt protection indicators due to factors such as elongation of working capital cycle, decline in margins or large debt funded capex.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	5974.68	4963.60	4653.34
EBITDA	Rs. Cr.	514.51	424.76	494.98
PAT	Rs. Cr.	85.73	9.39	11.69
EBITDA Margin	(%)	8.61	8.56	10.64
PAT Margin	(%)	1.43	0.19	0.25
ROCE	(%)	9.15	6.25	6.67
Total Debt/Tangible Net Worth	Times	1.11	2.40	2.67
PBDIT/Interest	Times	2.22	1.63	1.64
Total Debt/PBDIT	Times	3.55	6.78	6.60
Gross Current Assets (Days)	Days	123	177	187

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

CARE, vide its press release dated January 02, 2019 had denoted the rating of VPL as 'CARE BB/CARE A4+; ISSUER NOT COOPERATING' on account of lack of adequate information required for monitoring of ratings. The earlier rating, however, stood at 'CARE BBB+/Stable/CARE A3+' vide its press release dated April 06, 2018.

Any other information

The promoter, Mr. Neeraj Kochhar has been facing CBI investigation under section 306 of the Criminal Procedure Code. However, the case is pending in court. Acuité is unable to quantify the impact of this case on the credit profile of the company.

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.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)

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
Term loans	Not Applicable	Not Applicable	Not Applicable	22.84	ACUITE BBB-/ Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	3.50	ACUITE BBB-/ Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	26.68	ACUITE BBB-/ Stable
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	133.00	ACUITE A3
FUBD/FDBP/REBA	Not Applicable	Not Applicable	Not Applicable	158.00	ACUITE A3
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	158.00	ACUITE A3
FDDBP/FDUBD/RD DBP/RDUBD	Not Applicable	Not Applicable	Not Applicable	176.00	ACUITE A3
EPC/PCFC	Not Applicable	Not Applicable	Not Applicable	116.00	ACUITE A3

EBP/EBD	Not Applicable	Not Applicable	Not Applicable	208.00	ACUITE A3
EBD/FBD/EBR	Not Applicable	Not Applicable	Not Applicable	90.00	ACUITE A3
EPC/PCFC	Not Applicable	Not Applicable	Not Applicable	67.00	ACUITE A3
FBP/FCBD/FBN/FC BN	Not Applicable	Not Applicable	Not Applicable	83.00	ACUITE A3
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	52.00	ACUITE A3
FDB/FBE/BRD	Not Applicable	Not Applicable	Not Applicable	80.35	ACUITE A3
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	38.00	ACUITE A3
FOBP/FOUBP/FOB NLC/FOUBNLC/FO BD/FOUBD	Not Applicable	Not Applicable	Not Applicable	68.00	ACUITE A3
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	45.00	ACUITE A3
FDBP/FUDBP/BPFC /BDFC	Not Applicable	Not Applicable	Not Applicable	65.00	ACUITE A3
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A3
FBP/FBP(FC)	Not Applicable	Not Applicable	Not Applicable	35.00	ACUITE A3
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE A3
FDBN/FDBP/FDBD/ PSCFC/DPB/RACB	Not Applicable	Not Applicable	Not Applicable	36.00	ACUITE A3
Letter of Credit (Inland/Foreign)	Not Applicable	Not Applicable	Not Applicable	153.00	ACUITE A3
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	61.00	ACUITE A3
Letter of Credit (Inland/Foreign)	Not Applicable	Not Applicable	Not Applicable	194.00	ACUITE A3
Letter of Credit (Inland/Foreign)	Not Applicable	Not Applicable	Not Applicable	181.64	ACUITE A3
Letter of Credit (Inland/Foreign)	Not Applicable	Not Applicable	Not Applicable	160.00	ACUITE A3
Letter of Credit (Inland/Foreign)	Not Applicable	Not Applicable	Not Applicable	68.00	ACUITE A3
Letter of Credit (Inland/Foreign)	Not Applicable	Not Applicable	Not Applicable	57.14	ACUITE A3
Letter of Credit (Inland/Foreign)	Not Applicable	Not Applicable	Not Applicable	94.64	ACUITE A3
Letter of Credit (Inland/Foreign)	Not Applicable	Not Applicable	Not Applicable	74.00	ACUITE A3
Letter of Credit (Inland/Foreign)	Not Applicable	Not Applicable	Not Applicable	16.50	ACUITE A3
Letter of Credit (Inland/Foreign)	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE A3

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About Acuité Ratings & Research:

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