

Press Release

Venus Alloys Private Limited

November 15, 2019

Rating Assigned



Total Bank Facilities Rated*	Rs.32.05 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on the Rs.32.05 crore bank facilities of Venus Alloys Private Limited (VAPL). The outlook is '**Stable**'.

Madhya Pradesh-based, VAPL was incorporated in 1992 by Mr. Sagar Mal Jain, Mr. Pradeep Kimtee, Mr. Abhay Porwal and Mr. Komal Singh Duggad. VAPL is engaged in the manufacturing of M.S. ingot and billets. The company has two manufacturing units - Unit I (Ingot) and Unit II (Billet) with installed capacities of 29500 MTPA and 150000 MTPA, respectively.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced management and improving business risk profile**

The rating draws comfort from the long-standing experience of the promoters in the steel industry. The promoters, Mr. Sagar Mal Jain, Mr. Pradeep Kimtee, Mr. Abhay Porwal and Mr. Komal Singh Duggad, have been associated with the steel industry for almost three decades. Through active participation, the promoters have been able to build strong relations with both customers and suppliers.

The operating income of VAPL has been experiencing upward trend on year-on-year basis. The revenues of the company improved to Rs.496.31 crore in FY2019 (Provisional) as compared Rs.182.43 crore in FY2018 as against Rs.48.39 crore in FY2017. The growth is on the account of adding new product line i.e. Billets since 2017.

Acuité believes that VAPL will benefit from its established presence in the steel industry and experienced management over the medium term.

- **Moderate financial risk profile**

The financial risk profile of the company is moderate marked by moderate net worth, moderate gearing and healthy debt protection metrics. The net worth of the company stood moderate at Rs.28.80 crore as on 31 March 2019 (Provisional) increased from Rs.22.55 crore as on 31 March 2018, mainly on account of healthy accretion in profits. The tangible net worth also includes unsecured loans of Rs.8.18 crore as on 31 March 2019, considered as quasi equity. The gearing of the company stood moderate at 1.10 times as on 31 March 2019 (Provisional) and 0.73 times as on 31 March 2018. The total debt of Rs.31.60 crore consist term loans of Rs.20.36 crore and working capital borrowings of Rs.11.24 crore as on 31 March 2019 (Provisional). The interest coverage ratio (ICR) of the company stood healthy at 4.23 times in FY2019 (Provisional) as compared to 3.60 times in FY2018. The debt service coverage ratio (DSCR) of the company stood healthy at 3.79 times in FY2019 (Provisional) as compared to 3.27 times in FY2018. However, total outside liabilities to total net worth stood moderate at 2.35 times as on 31 March 2019 (Provisional) as compared to 1.56 times in as on 31 March 2018.

Acuité believes that the financial risk profile will continue to remain moderate over the medium term due to large scale of operations and healthy debt protection measures.

- **Efficiently managed working capital cycle**

VAPL has efficiently managed its working capital as reflected in Gross Current Assets (GCA) of 45 days in FY2019 (Provisional) as against 53 days in FY2018. The company maintains inventory of 22 days in FY2019 (Provisional) as against 33 days in FY2018 while the debtors stood at 20 days in FY2019 (Provisional) as against 18 days in FY2018. The average utilisation of working capital is ~80 per cent for past six months ended July 2019.

Acuite believes that the company's ability to maintain its working capital efficiently will remain critical to maintain a stable credit profile.

Weaknesses

- **Customer concentration risk**

The company is exposed to customer concentration risk as around 40.89 per cent of its total sales in FY2019 (Provisional) have been derived from two customers – Vedang Steels LLP and Shiva Steelage Private Limited. However, VAPL has started diversifying its customer base and started catering to other clients.

- **Susceptibility to fluctuation in raw material prices**

VAPL's operating profitability has shown fluctuating trends in the past due to volatility in raw material prices of metal and steel. The operating (EBIDTA) margin stood at 3.45 per cent in FY2019 (Provisional) as compared to 6.01 per cent in FY2018. The PAT margins are thin and stood at 1.40 per cent in FY2019 (Provisional) as compared to 2.21 per cent in FY2018. The decline is on account of high raw material prices and company's inability to pass it on to its customers.

- **Intense competition and inherent cyclicality in the steel industry**

The steel industry is highly fragmented and unorganised. VAPL is exposed to intense competitive pressure from large number of organised and unorganised players along with its exposure to inherent cyclical nature of the steel industry.

Rating Sensitivity

- Substantial improvement in scale of operation and profitability margins over the medium term.
- Decline in profitability margins leading to weakening of credit metrics.

Material Covenants:

- Current Ratio should be minimum of 1.33 times

Covenant is breached, the company has obtained waiver for breach of covenant.

Liquidity Position: Adequate

VAPL has adequate liquidity marked by accruals to the tune of Rs.11.47 crore in FY2019 (Provisional) as against repayment obligations to the tune of Rs.4.08 crore. The current ratio of the company stood at 1.20 times as on 31 March 2019 (provisional) and gross current asset days stood at 45 days in FY2019 (Provisional). The company had unencumbered cash and bank balances of Rs.2.88 crore as on 31 March 2019 (Provisional). The company's reliance on working capital borrowings is average; the cash credit limit remains utilised at ~80 per cent during the last six months period ended July 2019. The cash accruals of VAPL are estimated to remain adequate during FY2020 to 2022 in the range of Rs.12.46 crore to Rs.15.11 crore. Acuite believes that the liquidity of the company is likely to remain adequate over the near to medium term.

Outlook: Stable

Acuite believes that VAPL will maintain a 'Stable' business risk profile over the medium term based on its experienced management. The outlook may be revised to 'Positive' in case the company registers a substantial increase in the scale of operations, while maintaining its profitability. Conversely, the outlook may be revised to 'Negative' in case the company fails to achieve the projected scalability in revenues amidst competition or in case of deterioration in the company's financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	496.31	182.43	48.39
EBITDA	Rs. Cr.	17.13	10.96	1.63
PAT	Rs. Cr.	6.94	4.02	0.27
EBITDA Margin	(%)	3.45	6.01	3.38
PAT Margin	(%)	1.40	2.21	0.55
ROCE	(%)	25.81	23.56	5.84
Total Debt/Tangible Net Worth	Times	1.10	0.73	0.91
PBDIT/Interest	Times	4.23	3.60	1.58
Total Debt/PBDIT	Times	1.82	1.48	8.35
Gross Current Assets (Days)	Days	45	53	92

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

INDIA RATINGS, vide its press release dated June 13, 2019 has denoted the rating of Venus Alloys Private Limited as 'IND BBB- (ISSUER NOT COOPERATING)' on account of lack of adequate information required for monitoring of ratings.

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.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 loan	Not Applicable	Not Applicable	Not Applicable	10.50	ACUITE BBB- / Stable
Term loan	Not Applicable	Not Applicable	Not Applicable	10.05	ACUITE BBB- / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.50	ACUITE BBB- / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BBB- / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB- / Stable

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About Acuité Ratings & Research:

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