

Press Release

Venus Alloys Private Limited

March 31, 2022

Rating Upgraded



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	54.16	ACUITE BBB Stable Upgraded	-
Total Outstanding Quantum (Rs. Cr)	54.16	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has upgraded the long-term rating to '**ACUITE BBB**' (read as **ACUITE Triple B**) from '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on the Rs. 54.16 crore bank facilities of Venus Alloys Private Limited (VAPL). The outlook is '**Stable**'.

Rationale for Rating Upgradation

The rating is upgraded on account of improved business and financial performance of VAPL since the last rating exercise. The Company's operating income improved to Rs.511.26 Cr in 11MFY22 as against Rs.417.48 Cr in FY2021 and Rs.472.87 Cr in FY2020. The improvement is driven by successful completion of TMT bars manufacturing unit which commenced operations from end of March, 2021. The Company's financial risk profile also registered an improvement driven by improved profitability in FY2021. The Company overall gearing stood at 1.08 times as on March 31, 2021 as against 1.05 times as on March 31, 2020. The interest coverage improved to 4.47 times in FY2021 as against 3.15 times in FY2020.

About the Company

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. billets and TMT bars. The company has two manufacturing units - Unit I (Billet) and Unit II (TMT bars) with installed capacities of 150000 MTPA and 142000 MTPA, respectively. It manufactures TMT bars and rods of different sizes ranging from 8 mm to 32 mm diameter. The Company had a 29500 MTPA Ingot manufacturing unit which was shut down in beginning of FY2021 and it commenced production of TMT bars from March, 2021 onwards.

Analytical Approach

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

Key Rating Drivers

Strengths

> Experienced management and integrated operations

Incorporated in 1992, VAPL is promoted by Mr. Sagar Mal Jain, Mr. Pradeep Kimtee, Mr. Abhay Porwal, Mr. Komal Singh Duggad and their respective families. The promoters have

over three decades of experience in the iron & steel manufacturing business in India. The company benefits from the rich experience of its promoters, which is reflected by its long standing relations with both customers and suppliers. Prior to FY2021, the Company was engaged in manufacturing of ingot and billets. It forward integrated its operations and began manufacturing of TMT bars by end of FY2021. The Company's operating income stood at Rs. 417.48 Cr in FY2021 as against Rs.472.82 Cr in FY2020. In 11MFY22, the revenues stood at Rs.511.26 Cr.

Acuité believes VAPL will continue to benefit over the medium term from its experienced management and its long track record of operations.

> Efficient working capital operations

VAPL has efficiently managed its working capital as reflected in Gross Current Assets (GCA) of 42 days as on March 31, 2021 as against 44 days as on March 31, 2020 on account of low inventory levels and low debtor collection period maintained by the company. The company maintained inventory of 25 days and debtor collection period at 12 days as on March 31, 2021 as against 24 days and 12 days respectively as on March 31, 2020. The creditor payback period stood at 13 days as on March 31, 2021, same as last year. Further, the average utilization of working capital limit was ~47 percent and peak utilisation was ~75 percent for past twelve months ended January, 2022.

Acuite believes that the working capital operations of the Company will continue to remain efficient over the medium term.

> Moderate financial risk profile

VAPL's financial risk profile is moderate marked by healthy net worth, moderate gearing coupled with comfortable debt protection metrics and coverage indicators. The company's net worth stood at Rs.39.86 Cr as on March 31, 2021 as against Rs.32.60 Cr as on March 31, 2020. The networth improved due to accretion of profits to reserves, albeit withdrawal of Rs.0.09 Cr of unsecured loans from promoters and directors considered as quasi equity. The gearing and total outside liabilities to tangible net worth (TOL/TNW) stood at 1.08 times and 1.54 times respectively as on March 31, 2021 as against 1.05 times and 1.6 times respectively as on March 31, 2020. The total debt rose to Rs.43.22 Cr as on March 31, 2021 as against Rs.34.20 Cr as on March 31, 2020 on account of increase in long term debt. The Company has incurred a total capex of Rs. 24.22 Cr in FY2021 funded partly by long term debt of Rs.14 Cr, partly by sale of obsolete fixed assets and balance by internal accruals. The company on the other hand generated cash accruals of Rs.10.90 Cr in FY2021 as against Rs.8.24 Cr in FY2020. The improved profits, coupled with moderate debt level, has led to comfortable debt protection measures. The NCA/TD and interest coverage ratio for FY2021 stood at 0.25 times and 4.47 times respectively for FY2021 as against 0.24 times and 3.15 times respectively for FY2020. The debt service coverage ratio stood at 1.79 times in FY2021 as against 1.66 times in FY2020. The Debt-EBITDA ratio stands at 2.53 times in FY2021 as against 2.58 times in FY2020.

Acuite believes that with capex towards forward integration completed and no major debt funded capex planned over the medium term, the financial risk profile of VAPL will continue to remain moderate.

Weaknesses

> Thin Profitability margins

VAPL's operating margins and net profit margins stood at 4.02 percent and 1.76 percent respectively in FY2021 as against 2.69 percent and 0.74 percent respectively in FY2020. The improvement in margins is driven by lower power and fuel costs incurred during the year on account of time gap between shut down of ingot manufacturing unit and commencement of TMT bars manufacturing unit. The Company's profitability is susceptible to fluctuations in raw material prices, though the order back to back policy of the Company hedges the margins to an extent.

Acuite believes that VAPL's ability to maintain its profitability will remain a key monitorable.

> Inherent cyclicality in the steel industry

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

Rating Sensitivities

- > Improvement in scale of operations and profitability while maintaining its capital structure.
- > Elongation in working capital cycle

Material covenants

None

Liquidity Position: Adequate

The company has adequate liquidity position marked by moderate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.10.9 Cr in FY2021 and Rs.8.24 Cr in FY2020, while its maturing debt obligation were in the range of Rs.3.3 Cr to Rs.4.4 Cr for the same period. The cash accrual of the company is estimated to remain around Rs.10-14 Cr during 2022-23 against repayment obligations of around Rs.5-6.5 Cr during the same period. The company's working capital operations continued to remain efficient marked by the gross current asset (GCA) days of 42 days as on March 31, 2021 as against 44 days as on March 31, 2020. The average bank limit utilization stood at around 47 per cent for twelve months ended January, 2022. The company maintains unencumbered cash and bank balances of Rs.4.08 Cr as on March 31, 2021. The current ratio of the company stood at 1.21 times as on 31 March 2021.

Outlook: Stable

Acuité believes that the outlook on VAPL's rated facilities will remain 'Stable' over the medium term on account of its promoter's extensive experience, long track record of operations, moderate financial risk profile and efficient working capital operations. The outlook may be revised to 'Positive' in case of significant growth in revenue and profitability without deterioration in its capital structure. Conversely, the outlook may be revised to 'Negative' in case of significant deterioration in scale of operations and profitability.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	417.48	472.87
PAT	Rs. Cr.	7.36	3.49
PAT Margin	(%)	1.76	0.74
Total Debt/Tangible Net Worth	Times	1.08	1.05
PBDIT/Interest	Times	4.47	3.15

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

India Ratings vide its press release dated July 10, 2020 had denoted the rating of Venus Alloys Private Limited as 'IND BB (Issuer not Cooperating)/A4+ (Issuer not cooperating); Downgraded'.

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
05 Jan 2021	Term Loan	Long Term	7.00	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	7.00	ACUITE BBB- Stable (Assigned)
	Cash Credit	Long Term	2.00	ACUITE BBB- Stable (Reaffirmed)
	Cash Credit	Long Term	6.50	ACUITE BBB- Stable (Reaffirmed)
	Cash Credit	Long Term	13.00	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	8.16	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	10.50	ACUITE BBB- Stable (Reaffirmed)
15 Nov 2019	Cash Credit	Long Term	4.50	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	10.05	ACUITE BBB- Stable (Assigned)
	Cash Credit	Long Term	5.00	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	10.50	ACUITE BBB- Stable (Assigned)
	Cash Credit	Long Term	2.00	ACUITE BBB- Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.50	ACUITE BBB Stable Upgraded (from ACUITE BBB-)
Punjab National Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BBB Stable Upgraded (from ACUITE BBB-)
Punjab National Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	13.00	ACUITE BBB Stable Upgraded (from ACUITE BBB-)
HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	7.00	ACUITE BBB Stable Upgraded (from ACUITE BBB-)
Punjab National Bank	Not Applicable	Term Loan	Not available	Not available	Not available	7.00	ACUITE BBB Stable Upgraded (from ACUITE BBB-)
HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	10.50	ACUITE BBB Stable Upgraded (from ACUITE BBB-)
Punjab National Bank	Not Applicable	Term Loan	Not available	Not available	Not available	8.16	ACUITE BBB Stable Upgraded (from ACUITE BBB-)

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuите.in Salony Goradia Senior Analyst-Rating Operations Tel: 022-49294065 salony.goradia@acuите.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuите.in

About Acuité Ratings & Research

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,850 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

Disclaimer: An Acuité 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. Acuité 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, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité 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. Acuité 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.acuite.in) for the latest information on any instrument rated by Acuité