

Press Release

Vaswani Industries Limited

August 24, 2022

Rating Downgraded



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	32.00	-	ACUITE A3 Downgraded
Bank Loan Ratings	39.95	ACUITE BBB- Stable Downgraded	-
Total Outstanding Quantum (Rs. Cr)	71.95	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has downgraded the long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) to '**ACUITE BBB-**' (read as **ACUITE triple B Minus**) and the short-term rating of '**ACUITE A3+**' (read as **ACUITE A three plus**) to '**ACUITE A3**' (read as **ACUITE A three**) on the Rs. 71.95 Cr bank facilities of Vaswani Industries Limited (VIL). The outlook is '**Stable**'.

Rationale for downward revision of ratings

The rating on VIL takes into account the fall in profitability margins, range bound operating income and marginal increase in Debt- equity ratio. Further there were few days of overdrawn in the working capital limit in the month of April and May 22.

About the Company

Incorporated in the year 2003, VIL commenced its operations in February, 2004 by Mr. Ravi Vaswani and Mr. Yashwant Vaswani. The operations are currently led by Mr. Yashwant Vaswani. VIL is engaged in manufacturing of sponge iron and steel billets having an annual production capacity of 90,000 MT and 66,000 MT, respectively. Further, it operates an 11.5 MW thermal power plant for captive consumption since 2009. VIL is listed on Bombay Stock Exchange (BSE) and National Stock Exchange (NSE).

Analytical Approach

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

Key Rating Drivers

Strengths

Experienced management and established track record of operations

VIL was incorporated in the year 2003 and the operations are currently led by Mr. Yashwant Vaswani, who possess about two decades of experience in the aforementioned industry. The company is engaged in the manufacturing of sponge iron and steel billets with healthy scale

of operations as reflected from its revenue of Rs. 374.42 Cr in FY22. The top management is ably supported by well experienced technical team. Owing to its established track record of operations and management experience, the company has been able to establish healthy relationships with its customers and suppliers. Acuité believes that VIL's operational track record and extensive experience of the management will continue to help in building healthy relationships with its customers and suppliers

Moderate Financial Risk profile

VIL has Moderate financial risk profile marked by Moderate net worth and moderate debt protection metrics. VIL's net worth stood at Rs.99.17 Cr as on 31st March 2022 as against Rs. 94.71 Cr as on 31st March 2021. Gearing levels (debt-to-equity) stood at 0.53 times as on March 31, 2022 as against 0.44 in FY 2021. Further, the interest coverage ratio stood strong at 2.23 times for FY2022 as against 2.01 times in FY2021. However, Debt service coverage ratio moderated and stood at 1.55 times in FY2022 in comparison to 1.52 times in FY2021

Weaknesses

Intensive working capital operations

VIL has improved but intensive working capital requirements as evident from gross current assets (GCA) of 117 days in FY2022 as compared to 135 days in FY2021. Debtor days have improved marginally to 49 days in FY2022 as against 64 days in FY2021. The working capital limits are utilized at ~75 per cent during the last Six months.

Intense competition and inherent cyclicity in the steel industry

Steel is a highly competitive industry due to low entry barriers that results in intense competition from the large number of organized and unorganized players present in the market. The company's performance remains vulnerable to cyclicity in the steel sector as demand for steel depends on performance of end user segments such as construction and real estate. Also, the operating margin of the company is exposed to fluctuations in the prices of raw materials (coal and iron ore) as well as realization from finished goods. However, the risk is mitigated to an extent on account of established track record of operations.

Rating Sensitivities

- Significant improvement in operating performance of the company leading to improvement in overall financial risk profile
- Any deterioration in its liquidity leading to deterioration in debt protection metrics.
- Improvement in working capital cycle.

Material covenants

None

Liquidity Position

Adequate

VIL has adequate liquidity marked by adequate net cash accruals to its maturing debt obligations. Firm generated cash accruals of Rs. 8.08 crore for FY2022 (Prov.) as against Rs. 2.03 crore of repayment obligations for the same period. Current Ratio stood at 1.45 times as on 31 March 2022(Prov.) as against 1.47 times in the previous year. Therefore, company had adequate liquidity to meet its requirements.

Stable

Acuité believes that VIL will maintain a 'Stable' outlook over the medium term on account of its management's extensive experience and healthy relationship with existing clients. The outlook may be revised to 'Positive' if the firm is able to sustain growth in revenues while maintaining its profitability and improving its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital management leading to deterioration of its financial risk profile and liquidity profile.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	374.42	314.34
PAT	Rs. Cr.	4.42	4.06
PAT Margin	(%)	1.18	1.29
Total Debt/Tangible Net Worth	Times	0.53	0.44
PBDIT/Interest	Times	2.23	2.01

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

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>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
26 May 2021	Cash Credit	Long Term	10.00	ACUITE BBB Stable (Assigned)
	Letter of Credit	Short Term	11.00	ACUITE A3+ (Assigned)
	Bank Guarantee	Short Term	1.00	ACUITE A3+ (Assigned)
	Cash Credit	Long Term	7.00	ACUITE BBB Stable (Assigned)
	Bank Guarantee	Short Term	3.00	ACUITE A3+ (Assigned)
	Standby Line of Credit	Long Term	4.95	ACUITE BBB Stable (Assigned)
	Cash Credit	Long Term	18.00	ACUITE BBB Stable (Assigned)
	Letter of Credit	Short Term	12.00	ACUITE A3+ (Assigned)
	Letter of Credit	Short Term	5.00	ACUITE A3+ (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A3 Downgraded
Bank of Baroda	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A3 Downgraded
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	18.00	ACUITE BBB- Stable Downgraded
IDBI Bank Ltd.	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB- Stable Downgraded
Bank of Baroda	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE BBB- Stable Downgraded
Bank of Baroda	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A3 Downgraded
IDBI Bank Ltd.	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	11.00	ACUITE A3 Downgraded
State Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE A3 Downgraded
State Bank of India	Not Applicable	Stand By Line of Credit	Not Applicable	Not Applicable	Not Applicable	4.95	ACUITE BBB- Stable Downgraded

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About Acuité Ratings & Research

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