



Rating Rationale

Vandana Ispat Limited

30 April 2018

Brickwork Ratings reaffirms the ratings for the bank loan facilities aggregating Rs. 42 crores of Vandana Ispat Limited (VIL or 'the Company').

Particulars

| Facility Rated | Amount (Rs. Crs) | | Tenure | Rating * | |
|-----------------------|------------------|---|-------------------|---|---|
| | Previous | Present | | Previous | Present |
| Fund Based | 40.00 | 40.00 | Long Term | BWR BBB – (Pronounced as Triple B minus) (Outlook Stable) | BWR BBB – (Pronounced as Triple B minus) (Outlook Stable) (Reaffirmed) |
| Non-Fund Based | 2.00 | 2.00 | Short Term | BWR A3 (Pronounced as single A three) | BWR A3 (Pronounced as single A three) (Reaffirmed) |
| Total | 42.00 | 42.00 (INR Forty Two Crores Only.) | | | |

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

Long term Rating and Short term Rating reaffirmed at BWR BBB – (Stable outlook)/A3.

Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has essentially relied upon the Company's audited financial results upto FY17, un-audited financials for 9MFY18, projected financials for FY18 and FY19, publicly available information and clarifications provided by the Company.

The ratings draw strength from the promoters' established track record in this business along with long standing contacts and a reputed customer base, improvement in profitability margins owing to better sales realizations during FY17, comfortable financial risk profile driven by adequate tangible network and absence of any term loans and satisfactory feedback from lenders. BWR also takes note of the adequate EBITDA levels reported for servicing its interest obligations every year.

The ratings continue to factor in the significant amount of investments made by VIL in its group companies which do not provide any income to it, besides stagnant growth in Company's sales and production levels during FY17. Susceptibility to fluctuations in steel prices and the Company's ability to withstand the same would be the key rating sensitivity.



Key Rating Drivers

Credit Strengths:

Experienced promoters with established track record: The Company benefits from the long term experience of the promoters in this industry and their ability to maintain long standing contacts with existing customers. The operations of the company are mainly looked after by Mr. Subhash Agarwal (key promoter) and his brother, Mr. Ashok Agarwal.

Improvement in profitability margins: The Company's profitability margins increased amidst decline in its turnover & production levels during FY17. It has achieved EBITDA of Rs. 7.79 Crs in FY17 as against Rs. 5.48 Crs in FY16. Net profit of the Company improved from Rs. 0.21 Crs to Rs. 1.24 Crs during FY17 on account of better sales realizations during the last quarter of FY17.

Comfortable financial risk profile: VIL's gearing ratio remains at the comfortable level of 0.53x (P.Y. 0.49x) driven by adequate tangible net worth coupled with absence of any term loans during FY17. Gearing ratio is expected to improve as the management has not planned for any debt-funded capex over the medium. VIL's interest coverage ratios remain at moderate level but improved as compared to previous year driven by increase in EBITDA levels during FY17. Interest cost & finance charges of the Company has stood in the range of around Rs. 4.50 Crs and it reports average EBITDA of ~ Rs. 6.01 Crs every year.

Group Support: VIL is a flagship Company of the "Vandana Group", based in Chhattisgarh which provides business synergies and financial support. The other major group company is Vandana Rolling Mills Ltd who is in the same line of business and have common management and operational linkages.

Credit Weaknesses

Investments in its group companies: VIL has substantial exposure to its group companies since FY 13. Non-Current investments of Rs. 40.56 Cr (P.Y. 40.26 Cr) comprises investments made in its various group companies which are around 46% of the total company's net worth. VIL is not getting any revenues from these investments.

Susceptibility to fluctuation in steel prices: Though Company's profitability margins improved but remained at below 1% levels. Further, intense competition resulted in limited bargaining power and volatility in raw material prices should keep the group's operating margin modest over the medium term.

Analytical Approach

BWR has applied its rating methodology on a standalone basis, as detailed in the Rating Criteria (hyperlinks provided at the end of this rationale).

Rating Outlook: Stable

BWR believes Vandana Ispat Limited's business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case the company's turnover and profitability levels show sustained improvement, maintain its capital structure and substantial reduction in investment made in its group companies over the medium term. The rating outlook may be revised to 'Negative' if the revenues go down and profit margins show lower than expected figures.

About the Company

Vandana Ispat Ltd (VIL), based in Chhattisgarh, was established in 1995. VIL is one of the group companies of Vandana Group and has set up a unit located at Urla Industrial Area, Raipur, to



manufacture structural steel products such as angles, channels & beams. The total installed capacity of the rolling mill is 207,000 MTPA (for 3 shifts). It also has an induction furnace with annual capacity of 16,200 MTPA.

Vandana Rolling Mills Ltd (VRML), Chhattisgarh, was established in 1985, is also one of the part of Vandana Group. VRML has set up a unit to manufacture structural steel products with an installed capacity of 30,000 MTPA.

Company Financial Performance

The Company has reported a total operating income of Rs. 191.23 Crs in FY17 as against Rs. 213.68 Crs in FY16. The Company has estimated a turnover of Rs. 257.66 Crs for FY18. It has reported a net profit of Rs. 1.24 Crs during FY17 as against Rs. 0.21 Crs during FY16. As on 31st March 2017, it has reported a tangible net worth of Rs. 87.61 Crs against Rs. 86.32 Crs as on 31st March 2016

Key financial indicators are summarized in Annexure I below.

Rating History for the last three years (including withdrawn/suspended ratings)

| Sl. No. | Facility | Current Rating (2018) | | | Rating History | | |
|--------------|----------------|-----------------------|-----------------|----------------------------------|---------------------------------|------|--------------------|
| | | Type | Amount (Rs Crs) | Rating | 2017 | 2016 | 2015 |
| 1 | Fund Based | Long Term | 40.00 | BWR BBB – (Stable) (Reaffirmed) | BWR BBB – (Stable) (Reaffirmed) | N.A. | BWR BBB – (Stable) |
| 2 | Non-Fund Based | Short Term | 2.00 | BWR A3 (Reaffirmed) | BWR A3 (Reaffirmed) | N.A. | BWR A3 |
| Total | | | 42.00 | INR Forty Two Crores Only | | | |

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Short Term Debt](#)
- [Approach to Financial Ratios](#)
- [Manufacturing Companies](#)

For any other criteria obtain hyperlinks from website



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Annexure I – Key Financial Indicators

| Particulars | FY16 (A) | FY17 (A) |
|--|-----------------|-----------------|
| Total Operating Income (Rs. Crs) | 213.68 | 191.23 |
| EBITDA (Rs. Crs) | 5.48 | 7.79 |
| PAT (Rs. Crs) | 0.21 | 1.24 |
| Total Tangible Networth (Rs. Crs) | 86.32 | 87.61 |
| Gearing (Total Debt/TNW) Ratio (times) | 0.49 | 0.53 |
| Current Ratio (times) | 1.38 | 1.38 |

For print and digital media

The Rating Rationale is sent to you for the sole purpose of dissemination through your print, digital or electronic media. While it may be used by you acknowledging credit to BWR, please do not change the wordings in the rationale to avoid conveying a meaning different from what was intended by BWR. BWR alone has the sole right of sharing (both direct and indirect) its rationales for consideration or otherwise through any print or electronic or digital media.

Note on complexity levels of the rated instrument:

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, has also been accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of



India. Brickwork Ratings has Canara Bank, a Nationalized Bank, as its promoter and strategic partner.

BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Guwahati, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations. BWR has rated debt instruments/bonds/bank loans, securitized paper of over ₹ 9,30,000 Cr. In addition, BWR has rated about 5000 MSMEs. Also, Fixed Deposits and Commercial Papers etc. worth over ₹19,700 Cr have been rated. Brickwork has a major presence in rating of nearly 100 cities.

DISCLAIMER

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