Rating Rationale

Venkata Sai Ispat Industries Pvt Ltd

11Jan2019

Brickwork Ratings revises and reaffirms the ratings for the Bank Loan Facilities of ₹. 21.82 Crores of Venkata Sai Ispat Industries Pvt Ltd. (VSIIPL)

Particulars

Facility	Amount (₹ Crs)		Tenure	Rating*	
	Previous	Present		Previous (Sept, 2017)	Present
Fund based Cash Credit Term Loan	15.00 0.67	19.00 0.82	**Long Term**	**BWR B-** (Pronounced as BWR Single B minus) **Outlook:Stable**	**BWR B+** (Pronounced as BWR Single B minus) **Outlook: Stable (Upgraded)**
Non Fund Based Letter of Credit ILC/FLC (sub limit of CC)	2.00 (5.00)	2.00 (5.00)	**Short Term**	**BWR A4** (Pronounced as BWR A Four)	**BWR A4** (Pronounced as BWR A Four) **(Reaffirmed)**
Total	**17.67**	**21.82**	**INR Twenty One Crores and Eighty Two Lakhs Only**		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings
Note: The company has not provided the projections for FY 19 & FY20

Ratings: Long term rating upgraded and short term rating reaffirmed.

Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has essentially relied upon audited financial results of FY18, publicly available information and information provided by the Company's management.

The rating has factored, inter alia, experience of the promoters t in the steel and iron industry, established relationship with customers and suppliers, Increased revenues, improved net worth, moderate interest coverage indicator, improved net profit margin, and ability of the Company to sustain volatile & competitive nature of business. However, the ratings are constrained by high gearing, reduced operating profit margin, Tight liquidity, fluctuations in the price of raw materials, and intense competition from other players in the vicinity.

Going forward, ability of the company to increase its revenue & profitability, overall financial profile, timely repayment of debt obligation and manage its working capital efficiently will be the key rating sensitivities.

Description of Key Rating Drivers

Credit Strengths:

- **Experienced Promoters :** Promoters are experienced by more than 2 decades in the Steel and Iron Industry, which helped in revenue growth.
- **Improved financial performance:** The revenue of the Company has increased from Rs. 27.69 Crs. in FY17 to Rs. 54.32 Crs. in FY18, Net worth improved from negative Rs. 6.30 Crs in FY17 to positive Rs. 11.57 Crs in FY18, interest coverage and debt coverage ratios reported at 2.28 times and 2.25 times in FY18, Net profit margin improved from negative 2.65% in FY17 to 13.79 %in FY18.
- **Relationship with Customers and Suppliers :** The Company was established in July 2008 has seen a complete business cycle. Relationship with customers and suppliers is more than 5 years.

Credit Risks:

- **High Gearings profile and Reduced operating profit margin :** Debt equity ratio stood at 2.53 times in FY18. Operating profit of margin reduced from 13.51 % in FY17 to 9.78 % in FY18.
- **Tight liquidity position:** Current ratio stood at 1.03 times in FY18, and the utilization of cash credit is 100% and conversion cycle reported at 130 days in FY18.
- **Tough competition:** Highly fragmented and competitive industry, and stiff competition from other players in the industry.

Analytical Approach

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

Rating Outlook: *Stable*

BWR believes the **Venkata Sai Ispat Industries Pvt Ltd** 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 revenues and profit show sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down and profit margins show lower than expected figures.

About the Company

Venkata Sai Ispat Industries Private Limited was incorporated in July 2008. The Company's Registered office is located in Bangalore, Karnataka and manufacturing unit is located in Anantapur dist., Andhra Pradesh. The Company is engaged in the manufacturing of sponge iron, an input in the secondary steelmaking route through the coal based DRI (Direct Reduction of Iron known internationally as the SL-RN) process. The Directors of the Company are Mr. Deepak Bhaskar Pulipati and Mrs. Neelima Chowdary Pulipati. The unit has commenced its commercial production during 2012 and is now operating to the optimal capacity of 200 TPD. The Company has good customer network mainly based in Andhra Pradesh, Tamil Nadu and Maharashtra.

Company Financial Performance

As per FY18 audited financials the Company has reported revenue of Rs. 54.32 Crs and PAT of Rs. 7.49 Crs.

Key Financial Indicators

Key Parameters	Units	2016	2017	2018
Result Type		**Audited**	**Audited**	**Audited**
Operating Revenue	₹ in Crs	21.01	27.69	54.32
EBITDA	₹ in Crs	(8.07)	3.74	5.31
PAT	₹ in Crs	(4.59)	(0.73)	7.49
Tangible Net worth	₹ in Crs	(5.57)	(6.30)	11.57
Total Debt/Tangible Net worth	Times	(4.53)	(5.80)	2.53
Current Ratio	Times	0.70	0.93	1.03

Rating History for the last three years

S.No	Facility	Current Rating 2019			Rating History		
		Type	Amount (₹ Crs)	Rating	21.9.2017	2016	2015
	Fund Based	Long Term	19.82	**BWR B+** (Pronounced as BWR Single B plus) Outlook:Stable (Upgraded)	**BWR B-** (Pronounced as BWR Single B minus) Outlook:Stable	**Not Rated Earlier**	
	Non Fund Based	Short Term	2.00	**BWR A4** (Pronounced as BWR A Four) (Reaffirmed)	**BWR A4** (Pronounced as BWR A Four)		
	Total		**21.82**	**₹ Twenty one Crores and Eighty Two Lakhs Only**			

Status of non-cooperation with previous CRA -Reason and comments: Nil
Any other information: Nil

Hyperlink/Reference to applicable Criteria

- **General Criteria**
- **Approach to Financial Ratios**
- **Infrastructure Sector**
- **Short Term Debt**

For any other criteria obtain hyperlinks from website

Analytical Contacts	Media
Venkatesh ***CGM-Ratings*** analyst@brickworkratings.com	media@brickworkratings.com **Relationship Contact** bd@brickworkratings.com
Phone: 1-860-425-2742	

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, 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 leading public sector 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, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations.

DISCLAIMER

Brickwork Ratings (BWR) has assigned the rating based on the information obtained from the issuer and other reliable sources, which are deemed to be accurate. BWR has taken considerable steps to avoid any data distortion; however, it does not examine the precision or completeness of the information obtained. And hence, the information in this report is presented "as is" without any express or implied warranty of any kind. BWR does not make any representation in respect to the truth or accuracy of any such information. The rating assigned by BWR should be treated as an opinion rather than a recommendation to buy, sell or hold the rated instrument and BWR shall not be liable for any losses incurred by users from any use of this report or its contents. BWR has the right to change, suspend or withdraw the ratings at any time for any reasons.