



September 22, 2010

ICRA assigns LBB+ and A4+ ratings to the bank facilities of Vrinda Forgings Private Limited; assigns stable outlook

ICRA has assigned LBB+ (pronounced as L double B plus) rating to the Rs.18.0 crores¹ long term fund based facilities, and the Rs.5.0 crores term loan of Vrinda Forgings Private Limited ("VFPL"/ "the Company")[†]. ICRA has also assigned A4+ (pronounced as A four plus) rating to the Rs.3.0 crores short term non-fund based facilities of VFPL. The outlook on the long term rating is stable.

The ratings factor in the multifold growth in VFPL's revenues and the scale up of operations, growing from Rs. 1.0 crore in 2006-07, when it began operations, to Rs. 100.0 crores in 2009-10. The ratings factor in the experience of the promoters in the forging industry and their ability to infuse equity capital to support growth. The ratings also consider the company's plans to venture into higher value added operations through new machining capacities and backward integration into manufacturing steel ingots from steel scrap through a group company. However, the promoter group ventures being in their growth phase have aggressive capex plans, which may require significant funding.

The ratings take into account the moderate scale of operations, the moderately high customer concentration with top three customers accounting for 51.5% of revenues in 2009-10 and the high competition in the forging industry. The ratings also factor in the company's stretched financial profile characterised by thin operating/net margins, weak coverage indicators, negative fund flow from operations owing to stretched working capital cycle and funding requirements to support its capacity expansions. Further, lack of bargaining power with its customers has resulted in a stretched debtor cycle.

The company has a moderately high gearing of 1.1x as on 31st March 2010 with a heavy skew towards short term debt. Despite a Rs. 10.8 crore fresh equity infusion by the promoter, VFPL's gearing increased to 1.1x as on March 2010. While VFPL has a substantial Rs. 22.5 crores capex plan in the current financial year, its capital structure is expected to improve with the proposed Rs.18.2 crores equity infusion by the promoter in 2010-11. The rating derives significant comfort from the promoters' demonstrated financial commitment in the past and his proposed equity infusion plan in the current financial year.

Company Profile

Vrinda Forgings Private Limited (VFPL) is primarily engaged in the manufacturing of open and closed die forgings. The product portfolio comprises of closed die forging products such as crankshaft, camshaft and flanges and open die forging products such as rings, rolls and couplings.

VFPL's customers comprises of a variety of sectors namely steel rolling mills, sugar, refineries, automotives, defence, heavy engineering and agriculture. Currently the company caters exclusively to the domestic market but is also looking at exports in the near future.

VFPL was incorporated in 2004 by Mr. Aman Chhatwal as a partnership firm, but began operations in 2006. Prior to this Mr. Aman Chhatwal worked in a family concern-Ghaziabad Forgings Private Limited for around 20 years. The company began its operations in 2006 from a manufacturing facility set up in Vichoor, Chennai. On October 24th 2008, the company was converted from a partnership firm to a private limited company.

¹100 lakh = 1 crore = 10 million

[†] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.

PRESS RELEASE

Disclaimer: ICRA Ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA Ratings are subject to a process of surveillance, which may lead to revision in ratings. Please visit our website (www.icra.in) or contact any ICRA office for the latest information on ICRA Ratings outstanding.



The company, as of now, is closely held by the promoter's family. The promoter holds 37.2%, his wife Ms. Pooja Chhatwal holds 20.6% and his close family and friends hold the remaining 42.2% stake.

VFPL has two group companies- V N Engineering, Jammu (Proprietorship) and Vasu Castings and Alloys Private Limited, in the inception stage. The promoter has plans to merge V N Engineering (which has a plant in the tax free Samba zone of Jammu) and VFPL over the medium term and cater to both the domestic and export market from VFPL. Vasu Castings and Alloys Private Limited is in the area of manufacturing steel ingots from steel scrap. In addition the promoter is planning to start two new companies- Vasu Vrinda Rolling Mills Limited and Chennai Foundries Limited. Vasu Vrinda Rolling Mills Limited is expected to be in the area of manufacturing steel rolling mills for rounds. Chennai Foundries Limited will target manufacture of auto castings.

Recent results

VFPL reported a profit after tax (PAT) of Rs.1.4 crores on operating income of Rs.100.0 crores during 2009-10, against PAT of Rs.0.7 crores on operating income of Rs. 38.9 crores for the corresponding previous fiscal.

August 2010

For further details, please contact:

Analyst Contact:

Mr. Subrata Ray, (Tel. No. +91-22-30470027), subrata@icraindia.com

Relationship Contact:

Mr. Jayanta Chatterjee, (Tel. No. +91- 98450 22459), jayantac@icraindia.com

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

PRESS RELEASE

Disclaimer: ICRA Ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA Ratings are subject to a process of surveillance, which may lead to revision in ratings. Please visit our website (www.icra.in) or contact any ICRA office for the latest information on ICRA Ratings outstanding.