

March 28, 2024

Viraj Impex Private Limited: Ratings upgraded to [ICRA] BB+ (Stable)/ [ICRA] A4+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term, fund-based facility – Cash credit	2.0	2.0	[ICRA] BB+ (Stable); upgraded from [ICRA] BB (Stable)
Short-term, non-fund-based facility	108.0	108.0	[ICRA] A4+; upgraded from [ICRA] A4
Total	110.0	110.0	

*Instrument details are provided in Annexure-I

Rationale

The ratings upgrade factors in the expected improvement in the credit metrics of Viraj Impex Private Limited (VIPL) in FY2024 and FY2025, supported by remunerative steel import opportunities amid sluggish demand in China and in other key steel-consuming countries. The ratings also favourably factor in VIPL's sustained healthy liquidity profile, marked by cash and liquid balance of Rs. 102 crore as on December 31, 2023, fully undrawn fund-based working capital line of Rs. 2 crore and absence of long-term debt repayment obligations.

The ratings continue to derive comfort from the extensive experience of VIPL's promoters in the iron and steel trading business and their established relationships with reputed international suppliers, which ensure a smooth supply of traded steel. The company continues to follow a conservative approach while doing business by holding a minimal inventory.

The ratings remain constrained by the company's exposure to foreign exchange (forex) fluctuation risks, given its dependence on imports for its traded steel purchases. However, the risks are partly mitigated by the hedging undertaken by the company in the form of options contracts. The profitability also remains sensitive to the counterparty credit risks, as well as to the pricing pressure stemming from the intense competition within the steel trading industry.

The Stable outlook on the long-term rating reflects ICRA's opinion that VIPL will continue to benefit from favourable domestic steel demand and extensive experience of its promoters.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in iron and steel trading business - VIPL trades in imported flat steel products such as hot rolled (HR) and cold rolled (CR) coils, sheets, plates, and steel bars, among others. The promoters have an extensive experience of over five decades in the steel trading business.

Established relationships with reputed international suppliers - The extensive experience of the promoters in the steel trading business has helped the company to establish strong relationships with reputed overseas suppliers, which ensures a regular supply of traded steel.

Improved liquidity profile – The cash flows have improved in FY2024 led by significant scale-up of operations and prudent working capital management. ICRA notes a sharp rise in revenue to Rs. 139.5 crore in 9M FY2024 from Rs. 26.6 crore in FY2023, driven by sluggish demand in China and other key steel-consuming countries that led to a rise in steel exports to India and, in turn, remunerative imports by VIPL. This translated to positive operating profit margins during the period. Going forward, the cash flows are expected to remain healthy in the near term on account of healthy demand for steel in India. It further remains

supported by a cash and liquid balance of Rs. 102 crore as on December 31, 2023, fully undrawn fund-based working capital line of Rs. 2 crore and the absence of long-term debt repayment obligations.

Credit challenges

Exposure to price and forex risks and intensely competitive nature of the steel trading industry – The company remains exposed to price risks, given the cyclical nature inherent in the steel industry. The company's margins are exposed to forex fluctuation risk, given its dependence on imports for its traded steel purchases. However, the risks are partly mitigated by the hedging undertaken by the company in the form of options contracts. Moreover, the intensely competitive nature of the steel trading industry exerts pricing pressure and keeps the company's margins under check.

Exposure to counterparty credit risks – As on December 31, 2023, ~37% of the company's receivables amounting to Rs. 2.3 crore (from one major debtor) remained outstanding for more than one year. While the same is expected to be recovered in the near term, as the debtor has started repaying in monthly instalments, the possibility of write-offs due to the weak financial health of its customer cannot be ruled out.

Liquidity position: Adequate

VIPL's liquidity is adequate, supported by improved cash flows in FY2024 owing to the enhanced scale of operations. Moreover, the company reported unencumbered cash and liquid investments of Rs. 102 crore as on December 31, 2023. The absence of long-term debt repayment obligations and undrawn cash credit facility worth Rs. 2 crore, provide additional comfort to VIPL's liquidity position.

Rating sensitivities

Positive factors – ICRA may upgrade VIPL's ratings if there is a notable improvement in revenues and profitability, leading to an improved financial risk profile. A sustained improvement in its interest coverage to above 2.8 times would also be a positive rating factor.

Negative factors – Pressure on VIPL's ratings may arise in case of any sharp correction in steel prices and/or a sharp depreciation in the INR, resulting in losses for the company and affecting the liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Trading Companies
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

Viraj Impex Private Limited (VIPL), was incorporated as trading concern in 1985, and is majorly involved in the trading of imported steel products. The company imports flat products such as hot rolled (HR) & cold rolled (CR) coils/sheets/plates, steel bars, mild steel billets, among others and sells the same to local end-users. VIPL is promoted by the Didwania family, having over five decades of experience in the steel trading industry.

Key financial indicators (audited)

VIPL	FY2022	FY2023	9M FY2024*
Operating income	8.0	26.6	139.5
PAT	0.6	1.7	10.0
OPBDIT/OI	-12.7%	-13.6%	0.2%
PAT/OI	7.6%	6.4%	7.2%
Total outside liabilities/Tangible net worth (times)	0.0	0.2	1.0
Total debt/OPBDIT (times)	0.0	0.0	0.0
Interest coverage (times)	(9.8)	(35.2)	4.2

Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years					
		Amount rated (Rs. crore)	Amount outstanding as of Dec 31, 2023 (Rs. crore)	Date & rating in FY2023		Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
				Mar 28, 2024	Apr 06, 2023	Apr 07, 2022	-	Mar 30, 2021	Apr 13, 2020
1 Cash Credit	Long Term	2.0	-	[ICRA] BB+(Stable)	[ICRA] BB(Stable)	[ICRA] BB(Stable)	-	[ICRA] BB(Stable)	[ICRA] BB(Stable)
2 Letter of Credit	Short Term	108.0	--	[ICRA] A4+	[ICRA] A4	[ICRA] A4	-	[ICRA] A4	[ICRA] A4

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term- fund Based Limits- Cash credit	Simple
Short-term- Non-fund Based Limits	Very simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	2.0	[ICRA]BB+ (Stable)
NA	Letter of Credit	NA	NA	NA	108.0	[ICRA] A4+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis - Not applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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