

## Vanya Steels And Engineering Private Limited

	Amount Outstanding	Rating Action
	Rs. Crore	April 2016
Term Loan	10.02	[ICRA]B-; reaffirmed
Cash Credit Facilities	5.00	[ICRA]B-; reaffirmed
Letter of Credit	10.50	[ICRA]A4; reaffirmed
Unallocated	3.52	[ICRA]B-; reaffirmed

ICRA has reaffirmed its long term rating of [ICRA]B- (pronounced ICRA B minus) on the Rs. 10.02 crore<sup>1</sup> term loan and Rs.5.0 crore fund-based bank limits of Vanya Steels And Engineering Private Limited (VSEPL)† (*erstwhile Vanya Steels Private Limited*). ICRA has reaffirmed its short term rating of [ICRA]A4 (pronounced ICRA A four) on the Rs. 10.5 crore non-fund based limits of the company. ICRA has also reaffirmed its rating of [ICRA]B- on the Rs.3.52 crore unallocated limits of VSEPL.

The rating reaffirmation takes into account VSEPL's relatively subdued year-on-year revenue growth in FY2016, due to lower realizations on account of muted demand. The company had registered a strong growth in revenues in FY2015, aided primarily by increased capacity utilization due to usage of iron ore pellets in place of iron ore, which was in short supply. However, as the pellets are costlier than iron ore, this resulted in reduced operating profit margins and translated into net losses in FY2015, a trend which is expected to continue over the near term.

ICRA's ratings continue to factor in the capacity constraints at VSEPL's existing facility, and limited value addition in the standalone sponge iron manufacturing business, negatively impacting its operational profile. Moreover, the cyclical nature inherent in the steel industry is likely to keep VSEPL's profitability and cash flow volatile. Further, owing to the competitive and fragmented nature of the industry the company operates in, there is limited pricing flexibility. ICRA has also taken note of the debt repayment commitments of the company over the next few years, which are likely to necessitate funding support from promoters, if the trend of cash losses continues.

However the ratings derive comfort from the extensive experience of the promoters in the steel industry and their continued support to VSEPL, as demonstrated by regular equity infusion and unsecured loans over the past years, which has resulted in relatively moderate gearing levels, despite the company incurring cash losses during the same period.

Going forward, the company's ability to maintain steady revenue growth with a sustained improvement in its profitability and debt coverage indicators will be the key rating sensitivities

### Company Profile

VSEPL is engaged in the manufacturing of sponge iron, which in turn is used for manufacturing semi processed steel products (ingots and billets). The manufacturing facility of the company is located in Koppal, near Bellary (Karnataka) with an installed capacity of 60,000 metric tonnes per annum (MTPA). The manufacturing facility houses two DRI (Direct reduced Iron) kilns, each with a capacity of 100 tonnes per day and one crusher for iron ore.

### Recent Results

In FY2015, VSEPL reported an operating income of Rs.113.2 crore and a net loss of Rs.1.88 crore, as against an operating income of Rs.46.33 crore and a net loss of Rs.5.56 crore in the previous year. For 9M FY2016, VSEPL, on a provisional basis, reported an operating income of Rs.59.15 crore and a net loss of Rs.1.90 crore.

**April 2016**

<sup>1</sup> 100 lakh = 1 crore = 10 million

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



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