# Vinayaga Marine Petro Limited

March 14, 2019

## Summary of rating action

| Instrument* | Previous Rated Amount(Rs. crore) | Current Rated Amount(Rs. crore) | Rating Action |
|---|---|---|---|
| Long term – Fund based/CC | 2.00 | 2.00 | [ICRA]BBB- (Stable); Downgraded from [ICRA]BBB(Stable) |
| Short term - Non-fund Based-Working Capital Facilities | 73.00 | 73.00 | [ICRA]A3; Downgraded from [ICRA]A3+ |
| **Total** | **75.00** | **75.00** | |

*Instrument details are provided in Annexure-1

## Rationale

For arriving at the ratings, ICRA has taken a consolidated view of Vinayaga Marine Petro Limited (VMPL) along with its Group companies (as mentioned in Annexure – 2), given the close business, financial and managerial linkages among them.

The ratings revision reflects weakened financial performance of the Viraj Group during 9M FY2019 due to sharp depreciation of INR. While the Group hedges up to 70% of its forex exposure, steep currency depreciation in Q3 FY2019 resulted in a large forex loss and in turn an operating loss of Rs. 11.7 crore during 9M compared to an operating profit of Rs. 5.9 crore during FY2018.

The ratings, however, favourably factor in the extensive experience of the promoters in the iron and steel trading business and their established relationship with reputed international suppliers, which ensures smooth supply of traded steel. The ratings also draw comfort from the low customer concentration risk with the top ten customers accounting for 38% of the Group’s sales during 9M FY2019. ICRA also notes the favourable working capital cycle of the Group as it gets a usance period of 180 days, while the credit period offered to customers ranges from 60 to 120 days and its inventory holding period is about 45 days. The Group’s policy of parking customer payments in liquid investments supports its overall liquidity profile.

The ratings continue to remain constrained by the Group’s dependence on imports for traded steel purchases and its sensitivity to price risks given that a large part of its inventory is not backed by firm orders. The Group also remains sensitive to counterparty credit risks and to pricing pressures emanating from the stiff competition of the steel trading industry.

## Outlook: Stable

ICRA believes the Viraj Group will continue to benefit from the extensive experience of its promoters and from their established relationship with reputed steel suppliers in overseas markets. The outlook may be revised to Positive in case of substantial improvement in the operating profitability, which strengthens the financial risk profile. The outlook may be revised to 'Negative' in case of further weakening of the INR or in case of a sharp decline in steel prices, thereby weakening the financial profile of the Group.

## Key rating drivers

## Credit strengths

**Extensive experience of the promoters in the iron and steel trading business** – The Viraj Group is involved in trading of flat steel products such as hot rolled (HR) and cold rolled (CR) coils/sheets/plates, and steel bars, etc. The promoters have an extensive experience of about six decades in the steel trading business.

**Established relationship with reputed international suppliers, ensures regular supply of traded steel** – The extensive experience in the steel trading business has helped the Group in establishing relationship with reputed overseas suppliers, which ensures regular supply of traded steel. Almost 100% of the Group's purchases are in the form of imports from countries including Japan, South Korea, China etc.

**Low working capital intensity of operations –**The Viraj Group's purchases are backed by LCs with a usance period of 180 days, while the credit period offered to customers ranges from 60 to 120 days and its inventory holding period is about 45 days. As a result, the Group's working capital intensity of operations remains low and helps the Group earn income by parking customer payments in liquid investments.

## Credit challenges

**Significant exposure to forex risks** – The Viraj Group is significantly exposed to forex risks due to its dependence on imports for the traded steel procurement. Although the Group hedges a large part of its forex exposure, steep depreciation of the INR impacted its financial performance in 9M FY2019, resulting in an operational loss of Rs. 11.7 crore as against an operating profit of Rs. 5.9 crore in FY2018.

**Exposure to price risks and intensely competitive steel trading industry –** The Viraj Group is exposed to price risks, given the cyclicality inherent in the steel industry. The price risks are accentuated by freehold nature of inventory maintained by the Viraj Group. Moreover, the intensely commoditised industry characterised by stiff competition from multiple players, on the other hand, exerts pricing pressures and results in low profit margins.

**Exposure to counter-party credit risks** – As on December 31, 2018, ~5% of the Viraj Group's receivables remained outstanding for more than six months and expose the Group to counterparty credit risks. While the Group secures its receivables by way of post-dated cheques, the possibility of write-offs due to weak financial health of any of its customers cannot be rules out going forward.

## Liquidity Position:

The Group had an unencumbered cash balance of Rs. 1.2 crore and liquid investments of Rs. 90.43 crore as on December 31, 2018. While ICRA notes that a predominant share of the Group's liquid investments would be used towards payments of the maturing LC, the absence of long-term debt repayment obligations and Rs. 6-crore undrawn cash credit facility provide some comfort to its liquidity position. It maintained Rs. 50.41-crore margin money as on December 31, 2018 towards its working capital facility.

## Analytical approach:

| Analytical Approach | Comments |
|---|---|
| Applicable Rating Methodologies | Corporate Credit Rating Methodology<br>Rating Methodology for Trading Companies |
| Parent/Group Support | NA |
| Consolidation / Standalone | For arriving at the ratings, ICRA has taken a consolidated view of VMPL along with its group companies (as mentioned in Annexure-2), given the close business, financial and managerial linkages among them. |

## About the company:

Incorporated in the year 1997 as a trading concern, VMPL is involved in the business of importing and trading of steel products. The company imports flat products such as HR and CR coils/sheets/plates, steel bars, etc. and sells the same to local end-users and resellers. The company also owned a shipyard at Ghodbunder Road, Thane with a capability to build 5 vessels simultaneously with maximum vessel capacity of 90 metre length, 16.5 metre breadth and 2500 deadweight tons (DWT). However, the yard is closed down since September 2013 due to insufficient orders. The product profile and the customer profile of VIPL are similar to that of other group companies i.e. Kavi Commercial Company Limited (KCCL) (established in 1985) and Viraj Impex Private Limited (VIPL) (established in 1988). The promoters of the Viraj group (VIPL, VMPL and KCCL) have about six decades of experience in the steel industry and have established long term relationship with various suppliers. All the three group companies are co-promoted by the Didwania family.

In 9M FY2019, on a provisional basis, the Viraj group reported a net loss of Rs. 0.9 crore on an operating income (OI) of Rs. 412.8 crore, as compared to a net profit of Rs. 7.2 crore on an OI of Rs. 405.0 crore in FY2018.

## Key financial indicators

| | FY2018A | 9M FY2019P |
|---|---|---|
| Operating Income (Rs. crore) | 405.0 | 412.8 |
| PAT (Rs. crore) | 7.2 | -0.9 |
| OPBDIT/OI (%) | 1.5% | -2.8% |
| RoCE (%) | 10.5% | -0.8% |
| | | |
| Total Debt/TNW (times) | 0.0 | 0.1 |
| Total Debt/OPBDIT (times) | 0.5 | -0.4 |
| Interest coverage (times) | 8.0 | -28.5 |

*A – Audited; P – Provisional; Note: OPBDIT: Operating Profit before Depreciation, Interest and Taxes; RoCE (Return on Capital Employed): Profit before Interest and Tax (PBIT)/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work -in Progress); NWC: Net Working-Capital; Source: Viraj group*

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for last three years:

| | Instrument | Current Rating (FY2019) Type | Amount Rated (Rs. crore) | Amount Outstanding (Rs. crore) | Date & Rating Mar 2019 | Chronology of Rating History for the Past 3 Years: Date & Rating in FY2018 Feb 2018 | Date & Rating in FY2017 Mar 2017 | Date & Rating in FY2016 Apr 2016 |
|---|---|---|---|---|---|---|---|---|
| 1 | Fund based/CC | Long Term | 2.00 | **2.00** | **[ICRA]BBB- (Stable)** | **[ICRA]BBB (Stable)** | **[ICRA]BBB (Stable)** | **[ICRA]BBB (Stable)** |
| 2 | Non-fund Based-Working Capital Facilities | Short Term | 73.00 | **73.00** | **[ICRA]A3** | **[ICRA]A3+** | **[ICRA]A3+** | **[ICRA]A3+** |

## Complexity level of the rated instrument:

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

## Annexure-1: Instrument Details

| ISIN No | Instrument Name | Date of Issuance / Sanction | Coupon Rate | Maturity Date | Amount Rated (Rs. crore) | Current Rating and Outlook |
|---|---|---|---|---|---|---|
| NA | Fund based/CC | NA | 10.65% | NA | 2.00 | [ICRA]BBB-(Stable) |
| NA | Non-fund Based-Working Capital Facilities | NA | NA | NA | 73.00 | [ICRA]A3 |

Source: VMPL

## Annexure-2: List of entities considered for consolidated analysis

| Company Name | Consolidation Approach |
|---|---|
| Viraj Impex Private Limited | Full Consolidation |
| Vinayaga Marine Petro Limited | Full Consolidation |
| Kavi Commercial Company Limited | Full Consolidation |

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