



Press Release

VMS TMT Private Limited

October 26, 2022

Ratings

Instrument Facility /	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facility	100.93	IVR BBB-/ Stable (IVR triple B minus with Stable outlook)	Assigned	Simple
Short Term Bank Facility	3.00	IVR A3 (IVR A three)	Assigned	Simple
Total	103.93 (INR One hundred and three crore and ninety three lakh only)			

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of VMS TMT Private Limited (VTPL) derives strength from long experienced of promoters in the industry, association with a reputed brand “Kamdhenu” for selling its entire produce, leveraged capital structure and adequate coverage indicators and low working capital intensity of operations. However, the rating strengths are constrained on account of moderate scale of current operations notwithstanding a significant improvement witnessed in FY2022, susceptibility of profitability and cash flows to volatility in raw material prices, exposure to geographical concentration risk, vulnerability to cyclicity associated with the steel industry and intense competition and limited pricing flexibility in steel industry.

Key Rating Sensitivities:

Upward Factors

- Growth in scale of operations with improvement in profitability and gross cash accrual on a sustained basis
- Improvement in the capital structure and coverage indicators

Downward Factors

- Dip in operating income and/or profitability impacting the debt protection metrics



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- Any significant increase in the working capital requirements of the company and/ or debt funded capital expenditure exerting pressure on the liquidity position of the company
- Withdrawal of subordinated unsecured loans and/or moderation in the capital structure with deterioration in overall gearing

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Long experience of promoters in the industry**

The key promoter, Mr Manoj Kumar Jain, is a qualified chartered accountant and has been associated with the steel industry for about two decades now. His long association with the industry has helped to develop good relations with customers and suppliers.

- **Association with a reputed brand “Kamdhenu” for selling its entire produce**

Though a vast network of distributors and dealers, the company supplies TMT bars under the brand of Kamdhenu Ltd, on royalty basis, across Gujarat. The association with renowned brand - Kamdhenu, assists the company in supply of material at ease and helps the company to command a premium pricing in the market.

- **Leveraged capital structure and adequate coverage indicators**

As of March 31, 2022, the debt profile of the company comprised of subordinated unsecured loans aggregating to Rs.35.27 crore from the promoters which is considered as quasi equity. Considering the same the adjusted tangible net worth of the company stood at Rs. 53.95 crore as on March 31, 2022, compared with Rs. 37.78 crore as on March 31, 2021. The overall gearing ratio was 1.53x as on March 31, 2022, compared with 0.97x as on March 31, 2021, driven by increase in total debt due to increase in term loan, on account capex incurred in the recent past and increase in working capital borrowings. Further, total indebtedness as measured by TOL/TNW remained moderate at 1.92x as on March 31, 2022, compared with 1.01x as on March 31, 2021. Despite an increase in total debt, the debt protection metrics of the company improved due to increase in profit. Interest coverage ratio improved to 2.88x as on March 31, 2022 (1.68x as on March 31, 2021), DSCR was 2.18x in FY22 compared with



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1.53 x in FY21 and total debt/GCA was 7.79 years as on March 31, 2022 (39.55 years as on March 31, 2021).

- **Low working capital intensity operations**

The operations of VTPL have low working capital intensity due to its low average collection period from its customers and inventory holding requirements. In FY22 the company's operating cycle was 33 days compared with 31 days in FY21. The company's average collection period reduced to 18 days in FY22 compared with 32 days in FY21. Inventory holding period was 17 days in FY22.

Key Rating Weaknesses

- **Moderate scale of current operations notwithstanding a significant improvement witnessed in FY2022**

Despite an increase in company's topline in FY22, its current scale of operations remains modest. Total operating income of the company increased to Rs.493.73 crore in FY22 from Rs.225.04 crore in FY21 due to increase in the demand for TMT bars from the infrastructure sector. According to Infomerics a sustained increase in topline will be a key rating factor going ahead.

- **Susceptibility of profitability and cash flows to volatility in raw material prices**

The degree of backward integration defines the ability of the company to withstand cyclical downturns generally witnessed in the steel industry. Major raw materials required for the company are billets. The company procures raw materials mainly from local manufactures. Since raw material is the major cost driver, the prices of which are volatile in nature, the profitability of the company is susceptible to fluctuation in raw-material prices. Further, finished steel prices are also highly volatile and prone to fluctuations based on global demand supply situations and other macro-economic factors.

- **Exposure to geographical concentration risk**

The company's entire revenue is derived from sale of hot rolled TMT bars in the state of Gujarat, leading to a concentrated revenue profile, both in terms of product portfolio and geographical presence.



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- **Vulnerable to cyclical associated with the steel industry**

The domestic steel industry is cyclical in nature which is likely to impact the cash flows of the steel players, including VTPL. The steel industry is cyclical in nature and has witnessed prolonged periods where it faced a downturn due to excess capacity leading to a downtrend in the prices. The company's operations are thus vulnerable to any adverse change in the demand-supply dynamics.

- **Intense competition and limited pricing flexibility in steel industry**

The steel products manufacturing businesses is characterised by intense competition across the value chain due to low product differentiation, and consequent intense competition, which limits the pricing flexibility of the players, including VTPL. Intense competition, in a highly fragmented industry, however, is expected to keep scale of operations moderate over the medium term.

Analytical Approach: Standalone

Applicable Criteria:

[Rating Methodology for Manufacturing Company](#)

[Financial Ratios & Interpretation \(Non- Financial Sector\)](#)

[Criteria of assigning rating outlook](#)

Liquidity – Adequate

The liquidity position of the company is expected to remain adequate in the near to medium term with sufficient accruals and to meet the term debt repayment in the period FY23-FY25. However, the current ratio was low at 1.33 times in FY22. The average fund based utilisation for the past twelve months ended July, 2022 remained moderate at 72% indicating a sufficient cushion. Absence of any debt funded capex provides further comfort to the liquidity position.

About the company

VMS TMT Pvt. Ltd. has been promoted by the family members of Mr. Manoj Kumar Jain. Incorporated in 2013 and based out of Gujarat, the company is engaged in the manufacture of hot rolled TMT bars in its plant which is situated at village Bhayla, Taluka Bavla, District in Ahmedabad. The plant started commercial production in September 2021 with an installed



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capacity of 200000 MT per annum. The company sells TMT bars under the name Kamdhenu NXT TMT Bars and KAY2 TMT Bars.

Financials (Standalone):

	(Rs. Crore)	
For the year ended* / As on	31-March-21 (Audited)	31-March-22 (Audited)
Total Operating Income	225.04	493.73
EBITDA	2.83	16.17
PAT	0.75	6.88
Total Debt	36.61	82.36
Tangible Net-worth (including quasi equity)	37.78	53.95
EBITDA Margin (%)	1.26	3.28
PAT Margin (%)	0.33	1.39
Overall Gearing Ratio (x)	0.97	1.53

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: NA

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2022-23)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20
1.	Term Loan	Long Term	44.93	IVR BBB-/ Stable	-	-	-
2.	Cash Credit	Long Term	56.00	IVR BBB-/ Stable			
3.	Bank Guarantee	Short Term	3.00	IVR A3	-	-	-

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About Infomerics Ratings:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

For more information visit www.infomerics.com

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Term Loan 1	-	-	FY29	20.00	IVR BBB-/ Stable



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Term Loan 2	-	-	FY31	8.00	IVR BBB-/ Stable
Term Loan 3	-	-	FY31	2.00	IVR BBB-/ Stable
Term Loan 4	-	-	FY27	2.00	IVR BBB-/ Stable
Term Loan 5	-	-	FY29	6.87	IVR BBB-/ Stable
Term Loan 6	-	-	FY28	4.57	IVR BBB-/ Stable
Term Loan 7	-	-	FY31	1.49	IVR BBB-/ Stable
Cash Credit 1	-	-	-	18.50	IVR BBB-/ Stable
Cash Credit 2	-	-	-	37.50	IVR BBB-/ Stable
Bank Guarantee	-	-	-	3.00	IVR A3

Annexure 2: List of companies considered for consolidated analysis: Not Applicable.

Annexure 3: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/Len-VTPL-oct22.pdf>

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com