Press Release

Vandana Global Limited

March 30, 2024

Ratings

Instrument/Facility	Amount (Rs Cr.)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	263.18 (reduced from 325.80)	IVR BBB-/ Negative (IVR Triple B Minus with Negative Outlook)	Reaffirmed with outlook changed from Stable to Negative	Simple/ Complex
Short Term Bank Facilities	112.57	IVR A3 (IVR A Three)	Reaffirmed	Simple
Total	**375.75 (INR Three Hundred and Seventy Five Crore and Seventy Five Lakhs Only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The revision in rating outlook from Stable to Negative is on account of the income tax raid which took place during July 2023 on the premises of the Company as well as on the residences of the promoters. This might negatively impact the operating and financial performance of the Company. Infomerics will continue to monitor the situation closely and will take a view on the rating once the exact implications of the above on the credit risk profile of the entity is clear.

The reaffirmation of the ratings assigned to Vandana Global Limited (VGL) continue to derive comfort from the integrated operations of the Company with strong operational history, experienced management, locational advantage, strong customers and established relationships with reputed suppliers, improvement in capital structure and debt coverage parameters, and Government initiatives to promote steel segment. The ratings are, however, partially constrained by drop in operating profits of the Company in FY23 although improvement has been observed in 9MFY24 compared to 9MFY23, high competition and cyclicality in the steel industry, volatility in prices of finished steel and raw materials, and high contingent liabilities.

Key Rating Sensitivities:

Upward Factors

- Substantial & sustained improvement in revenue, and EBITDA margin leading to an improvement in debt protection metrics.
- Resolution of contingent liabilities pertaining to Chattisgarh State Power Distribution Company Limited.

Downward Factors

- Sustained deterioration in debt protection metrics because of drop in revenues or increase in operating costs or a combination of both.
- Sustained deterioration in working capital cycle.
- Any adverse impact on the operational and/ or financial performance of the company due to outcome of the income tax raid.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Integrated operations with strong operational history**

The Company is an integrated player, engaged in manufacturing of Sponge Iron, Billets, TMT Bars, Wire Rods and Ferro Alloys. The Company also has its power plant for captive use. The promoters started the operations in the year 2001 by setting up a 200 TPD Sponge unit. Based on successful operations and the market dynamics, the promoters expanded the capacity over the years and also achieved forward integration. Beginning FY23, the Company has embarked on making the plant convertible from MS (mild steel) products to MS and SS (stainless steel) products without changing the overall installed capacities. SS products are expected to be rolled out from the plant in October 2024 and further upgradation for better quality SS products is expected to be completed by October 2025.

- **Experienced management**

The management team comprises of Vijit Kumar Agrawal (Engineer), Govind Kumar Agrawal (Engineer) and others who carry a vast pool of experience with them. They are further well assisted by a team of experienced professionals.

- **Locational advantage**

The steel plant of Vandana Global Limited is constructed on an industrial land admeasuring 56.804 Acres and situated at Siltara Industrial Area, Phase II, Siltara, Chhattisgarh. The land has been allocated on a leasehold basis for a period of 99 years from Chhattisgarh State Industrial Development Corporation Limited (CSIDC). The Company therefore enjoys the advantage of its plant being located near to raw material sources, given abundance of those in Chattisgarh.

- **Strong and established relationships with reputed customers and suppliers**

The Company, being in the steel industry for more than two decades has a strong and established relationship with reputed customers & suppliers, which proves beneficial to them in obtaining the best prices and deals.

- **Improvement in capital structure and debt coverage parameters**

The Overall Gearing Ratio on Adjusted Net Worth, TOL/ATNW, Interest Coverage Ratio, and Debt Service Coverage Ratio stood at 1.55x, 2.33x, 3.92x, and 3.13x respectively in FY23. These figures were 1.87x, 2.71x, 3.71x, and 1.75x respectively in FY22. Thus, the capital structure and debt coverage indicators have improved in FY23 compared to FY22.

- **Government initiatives to promote steel segment**

The Government of India has been supporting the steel industry with various policies and schemes and initiatives. The New National Steel Policy (NSP) aims to achieve 300 MnT of steel-making capacity and 160 Kgs of per capita steel consumption by 2030-31 at an investment of USD 156.08 bn. On January 10, 2020, the Ministry of Steel announced that it will launch “Purvodaya”, a world class steel hub. The hub aims at an accelerated development programme of 5 Eastern states namely West Bengal, Chhattisgarh, Jharkhand, Odisha and Northern Andhra Pradesh which are extremely rich in coking coal, bauxite and dolomite reserves. The programme will also create world-class logistics and infrastructure. This will also help in achieving India’s steel policy target of 300 MnT by 2030.

Key Rating Weaknesses

- **Dip in operating profits in FY23 although improvement is observed in 9MFY24 compared to 9MFY23**

The operating profits (EBITDA) have dipped by ~19% YoY from INR101.14 crore in FY22 to INR81.87 crore in FY23 primarily due to increase in raw material prices. The EBITDA margin dropped from 8.74% in FY22 to 6.75% in FY23. The provisional financials of 9MFY24 have shown an improvement in operating profits compared to 9MFY23 owing to cooling off of raw material prices. EBITDA for 9MFY23 and 9MFY24 stood at INR47.96 crore and INR59.06 crore respectively, and EBITDA margins were 5.04% and 7.02% respectively. Total Operating Income in FY23 showed a marginal increase of ~5% YoY compared to FY22 and dipped by ~11% YoY from INR949.77 crore in 9MFY23 to INR840.95 crore in 9MFY24 because of the absence of TMT sales in FY23 and 9MFY24 owing to the modernisation of the plant for producing stainless steel along with mild steel TMT.

- **Volatility in the prices of raw materials and finished steel**

The price of steel has seen a lot of volatility over the last three years. The costs of raw materials are also volatile, hence, profitability of the Company is susceptible to fluctuations in the prices of its raw material prices and finished goods.

- **High competition and cyclicality in the steel industry**

VGL faces stiff competition not only from the established players, but also from the unorganised sector players as there is a low level of product differentiation. The steel industry is also cyclical in nature and has witnessed prolonged periods of downturn due to excess capacity leading to a downward movement in the prices. But the current outlook for the steel industry appears to be good with moderate demand in the domestic market.

- **High contingent liabilities**

Contingent liabilities stood high at ~INR62 crore as on 23.03.2024. Out of these, INR47.97 crore pertain to cross subsidy charges levied by Chattisgarh State Power Distribution Company Limited (CSPDL). The matter pertaining to Chattisgarh Power is sub-judice (case is pending before the Supreme Court of India). Infomerics would continue to monitor the situation w.r.t. all the contingent liabilities. Resolution of the major contingent liabilities pertaining to CSPDL mentioned above would be an upward rating factor while further increase in contingent liabilities would be considered as a downward rating factor. If at all the current contingent liabilities crystallise, the net worth would get wiped off by an equal amount, which would have a negative impact on the capital structure and debt coverage indicators. The contingent liabilities as on 23.03.2024 was ~34% of the net worth of the Company.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies
Financial Ratios & Interpretation (Non- Financial Sector)
Criteria of assigning rating outlook

Liquidity – Adequate

The Company had a comfortable current ratio of 1.24x as on March 31, 2023. Current ratio is remaining between 1.29x and 1.48x between March 31, 2024 and March 31, 2026. The GCAs of each of the years between FY24 and FY26 comfortably cover the debt repayments due in the respective years. The Operating Cycle was comfortable at 4 days in FY23, it is expected to remain within 12-29 days in FY24-26. The average utilisation of fund based working capital limits was low at around 55% between January 2023 and December 2023.

About the Company

Vandana Global Limited (VGL) was incorporated on 12th February 1996. The Company is an integrated player, engaged in the production of Sponge Iron, Mild Steel (MS) Billets, Thermo Mechanically Treated (TMT) Bars, Wire Rod, Ferro Alloys (Silico Manganese) and Power for captive consumption. The steel plant of Vandana Global Ltd. is constructed on industrial land admeasuring 56.804 Acres and situated at Siltara Industrial Area, Phase II, Siltara, Chhattisgarh. The land is on leasehold basis for a period of 99 years from Chhattisgarh State Industrial Development Corporation Limited (CSIDC). Beginning FY23, the Company has embarked on making the plant convertible from MS (mild steel) products to MS and SS (stainless steel) products without changing the overall installed capacities. SS products are expected to be rolled out from the plant in October 2024 and further upgradation for better quality SS products is expected to be completed by October 2025.

Financials (Standalone):

INR in Crores

For the year ended* / As on	31-03-2022	31-03-2023
	Audited	Audited

Total Operating Income	1156.84	1212.42
EBITDA	101.14	81.87
PAT	30.99	26.85
Total Debt	294.23	275.94
Tangible Net worth (Adjusted)	157.41	178.51
EBIDTA Margin (%)	8.74	6.75
PAT Margin (%)	2.67	2.21
Overall Gearing ratio (X) (Adjusted)	1.87	1.55

**Classification as per informerics' standards*

Status of non-cooperation with previous CRA: NA

Any other information: N.A.

Rating History for last three years:

Sr. No.	Name of Instrument/ Facilities	Current Rating (Year 2023-24)				Rating History for the past 3 years		
		Type	**Amount outstanding (Rs. Cr.)**		**April 06, 2023**	**Date(s) & Rating(s) assigned in 2022-23 (June 23, 2022)**	**Date(s) & Rating(s) assigned in 2021-22 (July 28, 2021)**	**Date(s) & Rating(s) assigned in 2020-21 (March 18, 2021)**
1.	Term Loan	Long Term	90.24	IVR BBB-/ Negative	IVR BBB-/ Stable	IVR BBB-/ Stable	IVR BBB-/ Stable	Provisional IVR BBB-/Stable
2.	Working Capital Term Loan	Long Term	45.83	IVR BBB-/ Negative	IVR BBB-/ Stable	IVR BBB-/ Stable	IVR BBB-/ Stable	Provisional IVR BBB-/Stable
3.	GECL	Long Term	72.30	IVR BBB-/ Negative	IVR BBB-/ Stable	IVR BBB-/ Stable	-	-
4.	Optionally Convertible Cumulative Preference Shares	Long Term	9.16	IVR BBB-/ Negative	IVR BBB-/ Stable	IVR BBB-/ Stable	IVR BBB-/ Stable	Provisional IVR BBB-/Stable
5.	Cash Credit	Long term	45.65	IVR BBB-/ Negative	IVR BBB-/ Stable	IVR BBB-/ Stable	IVR BBB-/ Stable	Provisional IVR BBB-/Stable
6.	Bank Guarantee	Short Term	16.23	IVR A3	IVR A3	IVR A3	IVR A3	Provisional IVR A3
7.	Letter of Credit	Short Term	96.34	IVR A3	IVR A3	IVR A3	IVR A3	Provisional IVR A3

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About Infomerics Ratings:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

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

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

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facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs Cr.)	Rating Assigned/ Outlook
Term Loan 1	-	-	March 2029	54.28	IVR BBB-/ Negative
Term Loan 2	-	-	March 2029	22.09	IVR BBB-/ Negative
Term Loan 3	-	-	March 2029	13.87	IVR BBB-/ Negative
Optionally Convertible Cumulative Preference Shares 1	-	-	June 2024	4.92	IVR BBB-/ Negative
Optionally Convertible Cumulative Preference Shares 2	-	-	June 2024	2.02	IVR BBB-/ Negative
Optionally Convertible Cumulative Preference Shares 3	-	-	June 2024	0.88	IVR BBB-/ Negative
Optionally Convertible Cumulative Preference Shares 4	-	-	June 2024	1.34	IVR BBB-/ Negative
Cash Credit 1	-	-	-	16.42	IVR BBB-/ Negative
Cash Credit 2	-	-	-	11.41	IVR BBB-/ Negative
Cash Credit 3	-	-	-	6.41	IVR BBB-/ Negative
Cash Credit 4	-	-	-	11.41	IVR BBB-/ Negative

Working Capital Term Loan 1	-	-	March 2029	13.77	IVR BBB-/ Negative
Working Capital Term Loan 2	-	-	March 2029	11.12	IVR BBB-/ Negative
Working Capital Term Loan 3	-	-	March 2029	0.46	IVR BBB-/ Negative
Working Capital Term Loan 4	-	-	March 2029	20.48	IVR BBB-/ Negative
GECL 1	-	-	December 2027	33.49	IVR BBB-/ Negative
GECL 2	-	-	May 2028	18.51	IVR BBB-/ Negative
GECL 3	-	-	August 2028	8.24	IVR BBB-/ Negative
GECL 4	-	-	August 2028	12.06	IVR BBB-/ Negative
Bank Guarantee 1	-	-	-	14.86	IVR A3
Bank Guarantee 2	-	-	-	1.37	IVR A3
Letter of Credit 1	-	-	-	64.96	IVR A3
Letter of Credit 2	-	-	-	10.99	IVR A3
Letter of Credit 3	-	-	-	20.39	IVR A3

Annexure 2: List of companies considered for consolidated analysis: NA

Annexure 3: Facility wise lender details:
https://www.infomerics.com/admin/prfiles/len-VandanaGlobal-mar24.pdf

Annexure 4: Detailed explanation of covenants of the rated 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.