

**Press Release**

**VRKP Steel Industries Pvt. Limited**

**July 20, 2018**

**Rating**

<b>Instrument / Facility</b>	<b>Amount (Rs. Crore)</b>	<b>Rating</b>	<b>Rating Action</b>
Issuer Rating	NA	IVR BB + [Is] /Stable (IVR Double B Plus [Is] with Stable Outlook)	Assigned

**Detailed Rationale**

The aforesaid rating assigned to VRKP Steel Industries Pvt. Limited (VRKP) is tempered by its moderate scale of operations with thin profitability, volatility in the prices of raw materials and finished goods, geographical and client concentration risk along with high competition and cyclicity in the steel industry. However, the rating is underpinned by its experienced promoter with long track record, established Brand, strategic location of its plant with backward integration initiatives, satisfactory gearing and debt protection metrics along with satisfactory working capital management. Growth in scale of operations, profitability and gearing level are the key rating sensitivities.

**List of Key Rating Drivers**

- Moderate scale of operations with thin profitability
- Volatility in the prices of raw materials and finished goods
- Geographical concentration risk
- Client concentration risk
- High competition and cyclicity in the steel industry
- Experienced promoter with long track record
- Established Brand
- Strategic location of plant with backward integration initiatives
- Satisfactory gearing and debt protection metrics
- Satisfactory working capital management
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## **Infomerics Valuation And Rating Pvt. Ltd.**

### **Detailed Description of Key Rating Drivers**

#### **Key Rating Weaknesses**

##### **Moderate scale of operations with thin profitability**

The total operating income of the company increased marginally by 0.52% in FY18 (provisional) over FY17. The company reported a PAT of Rs.0.25 crore on total operating income Rs.214.45 crore for FY18 (provisional), implying a moderate scale of operation. Further, VRKP operates at thin profit margin mainly due to lack of pricing power attributable to high competition in the operating spectrum. The EBITDA margin and the PAT margin of the company remained thin at 1.17% and 0.12% respectively in FY18 (Provisional). Further, the EBITDA margin deteriorated from 2.07% in FY17 to 1.17% in FY18 mainly due to subdued steel prices owing to muted steel demand and the impact of Real Estate Regulatory Authority (RERA) Bill which affected the local real estate industry (a major consumer of TMT bars) along with increase in raw material prices. Further, the group concern, VSPL has weak financial performance and posted net loss of Rs.3.94 crore in FY17 with high gearing of 3.8x as on March 31, 2017.

##### **Volatility in the prices of raw materials and finished goods**

The price of steel has seen a lot of volatility over the last three years. The price of sponge iron/billets which is one of the main raw materials required for VRKP fell by around 2% in FY17 as compared to FY16, but increased by around 24% in FY18. Similarly, the price realisation for TMT bars also witnessed a fall of around 1% in FY17 as compared to FY16, and increased by around 22% in FY18. The costs of raw materials and finished goods are volatile in nature and hence, VRKP's profitability is susceptible to fluctuation in the prices of its raw material prices and/or its finished goods.

##### **Geographical concentration risk**

VRKP mainly caters to the state of Karnataka which contributed more than 90% of its sales in FY18 (provisional). Hence, the company is exposed to geographical concentration risk. However, the company has begun efforts to strengthen its brand presence and grow its sales in nearby markets.

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### **Client concentration risk**

VRKP mainly caters to real estate companies and steel traders in the State of Karnataka. The top 10 customers comprised 50% of its sales in FY18 (provisional) sales. This indicates fair degree of client concentration risk for the company.

### **High competition and cyclicity in the steel industry**

VRKP mainly operates in the State of Karnataka and faces stiff competition from not only established players, but also from the unorganised sector due to low level of product differentiation. Further, the steel industry is also cyclical in nature and witnessed prolonged periods where it faced a downturn due to excess capacity leading to a downtrend in the prices. However, the outlook for the steel industry in the short to medium term appears to be good with robust demand in the domestic markets driven by various government initiatives and expected improvement in the infrastructure and real estate sector.

### **Key Rating Strengths**

#### **Experienced promoter with long track record**

VRKP was promoted by one Shri Vinod Kumar Agarwal in the year 2001. Shri Agarwal has more than three decades of experience in the iron and steel industry. Over the years of its operation, the company has established its presence in Thermo Mechanically Treated (TMT) bars manufacturing segment in the state of Karnataka. Currently, Shri Agarwal (Managing Director) is at the helm of affairs of the company.

#### **Established Brand**

The company markets its TMT bars under the brand “VRKP TMT”. VRKP has been able to establish its brand over the course of more than one and a half decade with a focussed advertising campaign to raise brand awareness and recall. VRKP has a direct sales team to penetrate in the market.

#### **Strategic location of plant with backward integration initiatives**

The manufacturing facility of VRKP is located within a distance of 10 km from Bangalore city which is its major catchment area. Further, the plant is very well connected with other nearby places through roadways. Agarwal Induction Furnace Pvt. Ltd (AIFPL) and VRKP Sponge

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and Power Plant LLP (VSPL) both are mainly part of VRKP group's backward integration initiative. VSPL is at the lowest end of the value chain. It manufactures sponge iron and then sells the same to AIFPL which is the middle of the value chain and manufacture billets and supply the same to VRKP. AIFPL meets almost 80% of VRKP's requirement and the balance is procured from other suppliers.

### **Satisfactory gearing and debt protection metrics**

VRKP has a comfortable long term debt-equity ratio of 0.10x and a moderate overall gearing ratio at 0.84x as on March 31, 2018 (Provisional). The company has no long term debts except vehicle loans and unsecured loan from the directors. The debt protection metrics for the company are comfortable in FY18 (provisional), with the interest coverage ratio of 3.06x and Total Debt to Gross Cash Accruals of 5.94x.

### **Satisfactory working capital management**

The company has prudently managed its working capital requirements and maintained its working capital cycle within a range of about 20-30 days over the past period. Further, the average utilisation of its working capital also remained satisfactory at about 66% during the past 12 months ended May, 2018.

### **Analytical Approach & Applicable Criteria:**

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

### **About the Company**

Incorporated in December 12, 2001, Bangalore based VRKP was promoted by one Shri Vinod Kumar Agarwal. VRKP is engaged in manufacturing of Thermo Mechanically Treated (TMT) bars of different sizes (ranging from 8mm to 36mm) and length. The manufacturing facility of the company is located at Bangalore with an installed capacity of 84000 MTPA. The company sells the TMT bars under the brand name, 'VRKP TMT' bars and mostly operates in the state of Karnataka through its direct sales team. VRKP is the flagship company of VRKP group formed by Shri Vinod Kumar Agarwal having major interest in the steel industry through its various companies. Shri Agarwal started its first manufacturing unit in section steel in early 90's. The other major companies/firms of the promoters are, Agarwal Induction Furnace Pvt Ltd (AIFPL, incorporated in 2015) engaged in manufacturing of Steel Billets and VRKP Sponge and Power Plant LLP (VSPL) engaged in manufacturing of sponge iron, billets, TMT

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bar with a captive 10MW power plant. AIFPL and VSPL both are mainly part of VRKP group's backward integration initiative. VSPL is at the lowest end of the value chain. It manufactures sponge iron and then sells the same to AIFPL which is the middle of the value chain and manufacture billets and supply the same to VRKP. Currently, Shri Vinod Kumar Agarwal (Managing Director) with more than three decades of experience in the iron and steel industry is at the helm of affairs of the company. He along with his son, Shri Kushal Agrawal constitutes the Board.

### Financials (Standalone):

(Rs. Crore)

For the year ended* / As On	31-03-2016	31-03-2017
	Audited	Audited
Total Operating Income	203.87	213.34
EBITDA	4.75	4.41
PAT	1.84	1.85
Total Debt	7.23	7.16
Tangible Net worth	11.10	12.96
EBITDA Margin (%)	2.33	2.07
PAT Margin (%)	0.90	0.87
Overall Gearing Ratio (x)	0.65	0.55

\*Classification as per Infomerics' standards.

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Nil

### Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2018-19)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17	Date(s) & Rating(s) assigned in 2015-16
1.	Issuer Rating	Long Term	NA	IVR BB + [Is] / Stable Outlook	-	-	-

**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](http://www.infomerics.com).

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### About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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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
Issuer Rating	-	-	-	-	IVR BB + [Is] / Stable Outlook