VRAJ Iron And Steel Limited

(Erstwhile Phil Ispat Private Limited)

January 05, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	137.70 (Enhanced from 52.70)	CARE A-; Stable	Reaffirmed
Long-term/Short-term bank facilities	30.00	CARE A-; Stable / CARE A2+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

For arriving at the ratings, CARE Ratings Limited (CARE Ratings) has taken a combined view of the operational and financial profiles of VRAJ Iron And Steel Limited (VISL; erstwhile Phil Ispat Private Limited) and Gopal Sponge and Power Private Limited (GSPPL) due to the managerial, operational, and financial linkages between the two entities.

The reaffirmation of the ratings of the bank facilities of VISL factors in the improvement in the combined financial performance during FY23 (FY refers to the period from April 1 to March 31), marked by an increase in the total operating income (TOI) and improvement in the profitability margins and the consequent improvement in the capital structure and debt protection metrices. The combined TOI grew by around 23% y-o-y in FY23 on the back of robust demand from end-user industries, resulting in an increase in sales volumes along with an industry-driven increase in average sales realisations. The profitability margins also improved on account of better spreads, attributable to higher average sales realisation levels and a largely steady cost structure. Furthermore, the margins were also positively impacted with the change in sales mix, i.e., the increase in revenue from the sale of thermo-mechanically treated (TMT) bars coupled with better absorption of fixed overheads due to an increase in capacity utilisation.

The ratings continue to derive comfort from the experience of the promoters with a long track record of operations, the semi-integrated nature of operations, the strategic location of the plants, and the satisfactory capacity utilisation.

The ratings, however, remain constrained by the geographical concentration risk, the profitability susceptible to the volatility in input prices, and the cyclicality associated with the steel industry. The ratings also take note of the upcoming project risk and the higher group exposure in the form of equity and unsecured loans and the corporate guarantee (CG) extended to another group company. VISL has decided to set up a 15-megawatt (MW) waste heat recovery based (WHRB) power plant and increase the installed capacity of sponge iron. The timely execution of these, without major cost and time overruns, will remain a key rating monitorable.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increase in the scale of operations above ₹800 crore and operating margins beyond 13% on a sustained basis.
- Sustenance of the capital structure below 0.20x and total debt (TD)/gross cash accruals (GCA) below 1x on a sustained basis.
- Maintenance of an operating cycle of less than 30 days on a sustained basis.

Negative factors

- Decline in the scale of operations below ₹500 crore and deterioration in the operating margins below 7.5% on a sustained basis.
- Any major debt-funded capex leading to a deterioration in the capital structure, with the overall gearing above 0.50x and TD/GCA above 2x.
- Any sizeable increase in group exposure, leading to moderation in the liquidity profile or capital structure from the current level.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Analytical approach: Combined

For arriving at the ratings, CARE Ratings has combined the business and financial risk profiles of GSPPL and VISL, considering that they have the same line of business, common management, and operational linkages, leading to cash flow fungibility.

Outlook: Stable

The 'stable' outlook assigned to the long-term rating is based on the ability of the promoters to maintain its combined financial risk profile, marked by the sustenance of its scale of operations and steady profitability levels while maintaining its capital structure and debt protection indicators at around the current levels.

Detailed description of the key rating drivers

Key strengths

Improvement in financial performance in FY23

The combined financial performance of VISL and GSPPL has witnessed improvement in FY23, marked by an increase in the TOI by around 23% y-o-y to ₹714 crore in FY23 on the back of robust demand from end-user industries, resulting in an increase in sales volumes along with an industry-driven increase in average sales realisations. The profitability margins also improved by 439 bps y-o-y in FY23 on account of better spreads, attributable to higher average sales realisation levels and a largely steady cost structure, the change in sales mix, i.e., the increase in revenue from the sale of TMT bars coupled with better absorption of fixed overheads due to the increase in capacity utilisation. Accordingly, the higher profit before interest, lease rentals, depreciation and taxation (PBILDT) level and the largely stable capital charges led to an increase in the profit-after-tax (PAT) to ₹90.27 crore (PY: ₹54.28 crore). Going forward, CARE Ratings projects the combined TOI to moderate in FY24 over FY23, mainly due to the anticipated moderation in average sales realisations and the largely stable sales volumes.

Comfortable capital structure and debt protection matrices

The combined capital structure of VISL and GSPPL continued to remain comfortable in FY23, marked by an overall gearing of 0.10x as on March 31, 2023 (improved from 0.22x as on March 31, 2022). Also, the debt protection matrices continued to remain comfortable, marked by a TD/GCA of 0.32x as on March 31, 2023 (0.72x as on March 31, 2022). However, CARE Ratings expects the overall gearing to moderate and peak in FY25 due to the expected increase in term loan pertaining to the ongoing capex plan. We expect the overall gearing to improve from FY26 onwards, on the back of accretion of profits to reserves and the gradual repayment of term debts.

Semi-integrated nature of operations along with captive power plant (CPP)

The manufacturing operations are semi-integrated in nature, with sponge iron plants, ingots and billets and rolled products derived from sponge iron and billets. There is a gradual shift in the product sales mix to downstream products via the increase in production and sales of billets and TMT bars. Sponge iron is captively consumed for manufacturing billets and the rest is sold. This apart, VISL and GSPPL also sell sponge iron to one another. VISL and GSPPL also have a 10-MW captive power source (waste heat recovery plant) to meet majority of the power requirements for its manufacturing operations. The integration of operations between the two entities coupled with captive power sources results in strong operational linkages, leading to a better cost structure.

Strategic location of the plant

Freight cost constitutes a significant portion in the manufacturing of steel products, as a large amount of bulky raw materials are required to be sourced to the manufacturing site. The manufacturing facilities are near the sources of the main raw materials (i.e., iron-ore and coal) required for the manufacturing of its products. The plants are also well connected through road (state highway and national highway) and rail transport (Raipur railway station), which facilitates easy transportation of raw materials and finished goods.

Presence of CPP as a part of backward integration

The iron and steel industry is a power-intensive industry, wherein, the stable supply of power is required favourably at a minimum possible cost. Power cost minimisation is possible through the utilisation of captive power sources, leading to a relatively stable and low-cost supply source for power requirements. VISL and GSPPL have a WHRB CPP of 10 MW, which caters to majority of the power requirements of the two entities. This helps reduce its dependency on external power sources and reduces power costs.

Satisfactory capacity utilisation in FY23

The combined capacity utilisation witnessed improvement in FY23 across all products on account of higher demand from end-user industries, marked by near 100% capacity utilisation of the sponge iron plant. Moreover, the capacity utilisation of TMT bars increased in FY23 to 63% from 40% in FY22, mainly due to stabilisation of the plant and better demand from the end-user industry. Also, going forward, CARE Ratings expects the capacity utilisation of the plants to remain higher on the back of expected sustenance of the healthy demand scenario, leading to higher sales volumes in the near to medium term.

Experienced promoters with long track record of operations

The promoters have experience of over 20 years in the steel industry, leading to better understanding of the local market dynamics and healthy relationships with customers and suppliers. Currently, the day-to-day operations are being managed by Vijay Anand Jhawar, Prashant Kumar Mohta, Amal Kumar Choudhary and Praveen Somani, supported by a team of experienced professionals.

Key weaknesses

Project risk

VISL has decided to set up a 15-MW WHRB power plant and increase the installed capacity of sponge iron in VISL, Bilaspur division, by 350 tonne per day (TPD) at an estimated cost of around ₹145 crore. The same will be financed through a mix of debt (₹85 crore; already sanctioned) and equity or internal accruals (₹60 crore). To date, it has expended around ₹35 crore through debt of ₹16 crore and internal accruals of ₹19 crore. The project commenced in March 2023 and is expected to be completed by January 2025. This project is eligible for capital subsidy, which will be received in the next 10 years. The timely execution of the project, without major cost and time overruns, will remain a key rating monitorable.

This apart, GSPPL is also in the process of acquiring a real estate property located in Raipur, from the debt recovery tribunal (DRT), against which it has already extended an advance of ₹11.0 crore. Although the total cost pertaining to this acquisition has not been shared with CARE Ratings, but the management has articulated that the company will note take any debt for the acquisition and the same will be funded out of internal accruals or surplus liquidity available with the company.

Moderate group exposure

The promoters have ventured in the real estate business by acquiring a real estate property, i.e., Treasure Island Mall, having 6.77 lakh sq ft of area, through a group company, namely, Vraj Commercial Private Limited (VCPL), wherein GSPPL and VISL have combined exposure in the form of equity investments and unsecured loans (USLs) to the tune of around ₹64 crore as on March 31, 2023. This apart, GSPPL has also extended a CG of ₹75 crore to VCPL as VCPL has availed a term loan of ₹75 crore to finance the refurbishment or repair cost of the mall. The management has maintained that part of the USL given by VISL and GSPPL will be repatriated out of the bank loan availed by VCPL and the remaining will be repaid out of surplus rental income of the mall, which is likely to commence from Q3FY25.

Geographical concentration risk and moderate customer concentration risk

The operations of the two entities are constrained in terms of its geographical reach, as majority of its customers are located within the state of Chhattisgarh, thereby restricting its market reach outside the state and risking its sustainability of cash flows in times of adverse market conditions. However, the state of Chhattisgarh has a large installed capacity of billets, which reduces the offtake risk of sponge iron to a large extent and provides revenue certainty.

The top 10 customers form about 39% of the total revenue for FY23 (38% of the total revenue for FY22), which exposes the company to moderate customer concentration risk. Nonetheless, VISL and GSPPL deal with business-to-business (B2B) customers, which reduces the demand volatility and offtake risk to a large extent.

Cyclicality associated with the steel industry

Steel is a cyclical industry strongly correlated to economic cycles, since its key users, viz., construction, infrastructure, automobiles, and capital goods are heavily dependent on the state of the economy. Apart from local factors, the global demand-supply situation especially in China is a major factor impacting steel prices and volumes. The producers of steel products are essentially price-takers in the market, which directly expose their cash flows and profitability to the volatility in steel prices.

Profitability susceptible to volatility in input prices

The major raw materials (i.e., iron ore and coal] form the largest component of the total cost of sales of steel products. The basic raw materials such as iron ore, coal, pig iron, dolomite, manganese ore, which are used for the production of sponge iron, billets, and silicomanganese are directly sourced from the domestic market (less than 10% of the total coal purchase is imported), the prices of which are volatile in nature.

However, VISL and GSPPL have coal linkages with Southeastern Coalfields Limited (SECL) for around 50% of their coal requirements, which is renewable on expiry, mitigating the pricing and supply risk of coal to a certain extent.

Liquidity: Adequate

The adequate liquidity position is marked by healthy cash accruals of around ₹99 crore against debt repayment obligations of around ₹10 crore in FY23, supported by a current ratio of above 2.0x as on March 31, 2023. The low average combined working capital utilisation, which stood at 17% in the 12 months ending August 30, 2023, and the healthy free cash and cash equivalents of ₹79.61 crore in H1FY24 add comfort to the liquidity position of VISL and GSPPL.

Going forward, the combined liquidity position is expected to remain adequate on account of the expected healthy cash accruals vis-à-vis scheduled debt repayment obligations and the requirement of internal accruals to fund the ongoing capex in FY24 and FY25, supported by an undrawn portion of term loans of around ₹69 crore.

Applicable criteria

Policy on default recognition
Consolidation
Financial Ratios – Non-financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Steel

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Commodities	Metals and mining	Ferrous metals	Iron and steel

Incorporated in March 2004, GSPPL was promoted by Raipur (Chhattisgarh)-based Ram Gopal Jhanwar and his son, Vijay Anand Jhanwar. GSPPL is engaged in the manufacturing of sponge iron and ingots, having an installed capacity of 60,000 metric tonne (MT) of sponge iron and 30,000 MT of ingots, along with a WHRB CPP of 5 MW.

In FY12, GSPPL bought a majority stake (i.e., 74%) in Phil Ispat Private Limited which was incorporated in 2004. Furthermore, the name of the company has changed to VRAJ Iron And Steel Limited (VISL) in the month of November, 2023. VISL is engaged in the manufacturing of sponge iron (120,000 MT), MS billets (57,600 MT), and TMT bars (54,000 MT), along with a WHRB CPP of 5 MW.

Combined* Brief Financials (₹ crore)	Combined FY22 (UA)	Combined FY23 (UA)
Total operating income	578.74	714.23
PBILDT	79.89	129.95
PAT	54.28	90.27
Overall gearing (times)	0.22	0.10
Interest coverage (times)	14.90	27.98

*The combined unaudited (UA) financials of GSPPL and VISL have been considered.
Note: The above results are the latest financial results available.

Standalone Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)
Total operating income	402.40	510.65
PBILDT	48.82	78.98
PAT	27.50	51.33
Overall gearing (times)	0.51	0.17
Interest coverage (times)	11.51	23.77

A: Audited. Note: The above results are the latest financial results available.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	40.00	CARE A-; Stable
Fund-based - LT-Term Loan	-	-	-	December, 2030	97.70	CARE A-; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	30.00	CARE A-; Stable / CARE A2+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-Cash Credit	LT	40.00	CARE A-; Stable	1)CARE A-; Stable (08-Nov-23)	1)CARE A-; Stable (08-Nov-22)	-	-
2	Non-fund-based - LT/ ST-BG/LC	LT/ST*	30.00	CARE A-; Stable / CARE A2+	1)CARE A-; Stable / CARE A2+ (08-Nov-23)	1)CARE A-; Stable / CARE A2+ (08-Nov-22)	-	-
3	Fund-based - LT-Term Loan	LT	97.70	CARE A-; Stable	1)CARE A-; Stable (08-Nov-23)	1)CARE A-; Stable (08-Nov-22)	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities:

Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - LT/ ST-BG/LC	Simple

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Contact us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Arindam Saha Director **CARE Ratings Limited** Phone: + 91-033- 40181631 E-mail: arindam.saha@careedge.in
Relationship Contact Ankur Sachdeva Senior Director **CARE Ratings Limited** Phone: +91-22-6754 3444 E-mail: Ankur.sachdeva@careedge.in	Gopal Pansari Assistant Director **CARE Ratings Limited** Phone: + 91-033- 40181647 E-mail: gopal.pansari@careedge.in Vikash Kumar Rai Lead Analyst **CARE Ratings Limited** E-mail: vikashkumar.rai@careedge.in

About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

For the detailed Rationale Report and subscription information, please visit www.careedge.in