VRAJ Iron And Steel Limited

January 10, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	40.00	CARE A-; Stable	Reaffirmed
Long-term / Short-term bank facilities	30.00	CARE A-; Stable / CARE A2+	Reaffirmed
Long-term bank facilities	-	-	Withdrawn

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to bank facilities of VRAJ Iron And Steel Limited (VISL) continue to derive comfort from experience of promoters with a long track record of operations, semi-integrated nature of operations, strategic location of the plants, satisfactory capacity utilisation in FY24 and H1FY25 and satisfactory financial performance of the company marked by steady scale of operation and range bound operating margins in FY24. It is expected that the company's sales volumes will remain healthy in the near-to-medium term considering steady demand from end-user industries. Sales realisation continued to remain muted in H1FY25, which is likely to constrain operating margins to an extent. Movement in steel prices in the second half of the current fiscal would be crucial in determining the company's overall operating margins.
Ratings also take note of the company's successful issue of initial public offer (IPO), which led to improvement in the capital structure. Ratings further note commencement of commercial operation (CCO) of sponge plant in VISL in December 2024 ahead of scheduled CCO of January 2025 and consequent increase in revenue potential of the company.

However, ratings remain constrained by project risk despite moderation in execution risk, geographical concentration risk, profitability susceptible to input price volatility, cyclicality associated with the steel industry and moderate group exposure in the form of equity and the corporate guarantee (CG) extended to another group entity.

CARE Ratings Limited (CARE Ratings) has withdrawn ratings assigned to one of the long-term bank facilities (term loans) of VISL with immediate effect. This has been done at the request of VISL and 'No Due Certificate' received from banks that have extended facilities rated by CARE Ratings.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increase in the scale of operations above ₹750 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 1.0x 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 ₹350 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.

Analytical approach: Standalone with group linkages

For arriving at ratings, CARE Ratings had combined business and financial risk profiles of Gopal Sponge and Power Private Limited (GSPPL) and Vraj Iron and Steel Limited (VISL) considering that they were in same line of business, having common management and operational linkages leading to cash flow fungibility. However, VISL got listed in July 2024 and accordingly, CARE Ratings has changed the analytical approach from combined to standalone with group linkages.

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

Outlook: Stable

The 'stable' outlook assigned to the long-term rating is based on ability of promoters to maintain its 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 current levels.

Detailed description of key rating drivers

Key strengths

Experienced promoters with long track record of operations

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

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

Manufacturing operations are semi-integrated, 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 increase in production and sales of billets and TMT bars. Sponge iron is captively consumed for manufacturing billets and the rest is sold. VISL also have a 5-MW captive power source (waste heat recovery) to meet majority power requirements for its manufacturing operations reduce its dependency on external power sources, leading to a better cost structure, which positively impact the company's profitability margins.

Strategic plant location

Freight cost constitutes a significant portion in manufacturing steel products, as a large amount of bulky raw materials are required to be sourced to the manufacturing site. Manufacturing facilities are near sources of the main raw materials (iron-ore and coal) required for manufacturing its products, leading to relatively lower landed cost and raw material security. 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.

Satisfactory capacity utilisation in FY24 and H1FY25

Capacity utilisation (CU) for the company's sponge iron continued to remain high and stood above 90% in FY24. CU of MS billets also remained steady in FY24. However, CU of TMT bar witnessed moderation to 48% in FY24 from 63% in FY23, mainly due to conscious decision of the management to sell more MS billets, as billets have better margins than TMT bar in FY24, as articulated by the management.

In H1FY25, CU across all products witnessed improvement in FY24 and is expected to remain high in H2FY25 considering sustenance of better demand from user industries.

Satisfactory financial performance in FY24 and H1FY25

The company's financial performance remained satisfactory in FY24 marked by healthy operating margins, which further improved by 336 bps to 18.33% in FY24 despite moderation in total operating income (TOI). The company's TOI moderated by ~19% y-o-y to ~₹419.86 crore considering moderation in average selling prices of across all products by ~10%-14% attributable to falling raw material prices in general and of coal in particular and minor moderation in sales volume of Sponge iron and TMT bars, while sales volumes of MS billets increased in FY24. The company's profit before interest, lease rentals, depreciation, and taxation (PBILDT) and gross cash accruals (GCA) stood at ₹77 crore (PY: ₹77 crore) and ₹60 crore (PY: ₹58 crore) as on March 31, 2024.

In H1FY25, the company reported profit after taxes (PAT) of ₹24.44 crore on TOI of ₹202.15 crore.

Comfortable capital structure and debt protection metrics in FY24

The company's capital structure continued to remain comfortable in FY24 marked by overall gearing of 0.34x as on March 31, 2024. Overall gearing moderated to 0.34x as on March 31, 2024, from 0.18x as on March 31, 2023, attributable to availment of term debt to finance the ongoing capex. However, CARE Ratings also notes that post issue of IPO of VISL, the company has already repaid the major long-term debt and now there are nil long-term debts as on September 30, 2024, in VISL. The company's capital structure further improved in H1FY25 and is expected to remain range bound in ensuing fiscals.

Debt protection matrices continued to remain comfortable marked by total debt (TD) to GCA and interest coverage of 1.06x (PY: 0.43x) and 26.57x (PY: 22.19x) as on March 31, 2024, respectively. (0.43x as on March 31, 2023). However, it further improved in H1FY25, as the company has already repaid all term loans.

Successful issue of IPO

VISL offered fresh issue of 82,60,869 shares under the IPO aggregating ₹171.0 crore. Promoters' shareholding prior to IPO as on June 30, 2024, was 100% (GSPPL shareholding: 72.74%). Now, it stood at 74.95% (GSPPL shareholding: 54.52%) as on July 03, 2024, post IPO. The company has utilised the IPO proceed to repay the long-term debt and proposed expansion of project. Now the company has no long-term debts outstanding as on September 30, 2024. Accordingly, the company's capital structure further improved in H1FY25 and is expected to remain range bound in ensuing fiscals.

Key weaknesses

Project risk despite moderation in execution risk

The company is in the process of setting up 153,000 TPA of MS Billets and 1,15,500 TPA additional capacity of sponge iron and 15 MW WHRB based captive power plant at an estimated cost of ~₹165 crore (revised from ₹145 crore). This was proposed to be financed through mix of debt (₹85 crore; already sanctioned) and equity/internal accruals (₹80 crore). Post issue of IPO, the company has repaid term debt pertaining to projects out of IPO proceed and accordingly entire ongoing capex has been fully funded through equity/internal accruals.

Till September 30, 2024, ₹135.05 crore has already been expended through IPO proceeds of ₹100.05 crore and internal accruals of ₹35 crore. The project started in March 2023 and sponge plant has already commenced commercial operational in December 2024 ahead of scheduled COD of January 2025. WHR based power plant and MS billet plant are expected to be completed by January 2025 and April 2025, respectively. This project will save power cost as the group is buying power at spot rates as on date and addition of sponge iron / billet capacity will result in economies of scale. This project is eligible for subsidies, which will be received in the next 10 years. The timely project execution, without major cost and time overruns, will remain a key rating monitorable.

Geographical concentration risk and moderate customer concentration risk

VISL's operations are constrained in terms of its geographical reach, as majority its customers are within Chhattisgarh, restricting its market reach outside the state and risking its sustainability of cash flows in times of adverse market conditions. However, Chhattisgarh has a large installed capacity of billets, which reduces off-take risk of sponge iron and largely provides revenue certainty.

Top 5 customers form ~37% of the total revenue for FY24 (33% of the total revenue for FY23), which exposes the company to moderate customer concentration risk. The group deals with B2B customers, which reduces demand volatility and off-take risk to a large extent.

Profitability susceptible to input price volatility

The major raw materials (iron ore and coal) form the largest component of total cost of sales of steel products. Basic raw materials such as iron ore, coal, pig iron, dolomite, manganese ore, which are used to produce sponge iron, and billets are directly sourced from the domestic market (less than 10% of the total coal purchase is imported), prices of which are volatile.

However, the company has coal linkage with Southeastern Coalfields Limited (SECL) for ~40-45% of their coal requirements, which is renewable on expiry, mitigating pricing and supply risk of coal to a certain extent.

Cyclicality associated with the steel industry

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

Moderate group exposure

The company's total group exposure stood at ~₹36 crore in the form of equity investment of ₹11 crore and corporate guarantee (CG) of ₹25 crore extended to Vraj Metaliks Private Limited (VMPL). Hence, total exposure to the group accounted for ~19% of tangible net worth (TNW) as on March 31, 2024. VMPL is an operational entity and is generating adequate GCA to meet its debt repayment obligations and do not require the support of VISL. As articulated by the management, CG will be revoked as discussions with the lender is going on.

Liquidity: Adequate

Adequate liquidity position is marked healthy cash accruals of ₹60 crore against debt repayment obligations of ~₹9.34 crore in FY24. Working capital utilisation also remained low at 13% for 12 months ending October 2024.

Going forward, the group's liquidity position is expected to remain adequate considering healthy cash accruals against nil scheduled debt repayment and internal accruals to fund ongoing capex in FY25. Its unutilised cash credit limit (to the tune of ₹39.22 crore as on October 31, 2024) is over adequate to meet its incremental working capital needs in the next one year.

Applicable Criteria

Definition of Default
Factoring Linkages Parent Sub JV Group
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Nonfinancial Sector
Withdrawal Policy
Short Term Instruments
Iron & Steel

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Commodities	Metals and mining	Ferrous metals	Iron and steel

Incorporated in 2004, VISL is engaged in manufacturing sponge iron (120,000 MT), MS billets (57,600 MT), TMT bars (54,000 MT), and a WHRB CPP of 5 MW. In FY12, GSPPL bought a majority stake in VISL. VISL got listed in July 2024 on Bombay Stock Exchange (BSE) and National Stock Exchange (NSE) platform.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	H1FY25 (UA)
Total operating income	515.67	419.86	202.15
PBILDT	77.17	76.94	34.66
PAT	51.12	54.12	24.44
Overall gearing (times)	0.18	0.34	0.02
Interest coverage (times)	22.19	26.57	41.31

A: Audited; UA: unaudited; Note: These are latest available financial results.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

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

Complexity level of 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 and Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	40.00	CARE A-; Stable
Fund-based - LT-Term Loan	-	-	-	December 2030	0.00	Withdrawn
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	30.00	CARE A-; Stable / CARE A2+

Annexure-2: Rating history for 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 2024-2025	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
1	Fund-based - LT-Cash Credit	LT	40.00	CARE A-; Stable	-	1)CARE A-; Stable (05-Jan-24) 2)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+ (05-Jan-24) 2)CARE A-; Stable / CARE A2+ (08-Nov-23)	1)CARE A-; Stable / CARE A2+ (08-Nov-22)	-
3	Fund-based - LT-Term Loan	LT	-	-	-	1)CARE A-; Stable (05-Jan-24) 2)CARE A-; Stable (08-Nov-23)	1)CARE A-; Stable (08-Nov-22)	-

LT: Long term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable

Annexure-4: Complexity level of 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 complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

Annexure-5: Lender details

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

Contact us

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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.

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