Vardhmān

Delivering Excellence. Since 1965.

VARDHMAN SPECIAL STEELS LIMITED

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Ref. VSSL:SCY:JUNE:2018-19 **Dated: 27-June-2018**

The Deputy General Manager, Corporate Relationship Deptt, Bombay Stock Exchange Limited, 1st Floor, New Trading Ring, Rotunda Building, P.J Towers, Dalal Street,Fort, **MUMBAI-400001.** **Scrip Code: 534392**	The National Stock Exchange of India Ltd, "Exchange Plaza, Bandra-Kurla Complex, Bandra (East), **MUMBAI-400 051** **Scrip Code: VSSL**

SUB: REVISION IN CREDIT RATING

Dear Sir/Madam,

This is to inform you that all ratings assigned by CRISIL are kept under continuous surveillance and review. In this regard, we would like to inform you that the rating and outlook of long- term Bank Loan facilities of the Company has been upgraded from "AA-/Positive" to "AA/Stable".

The details of change in rating and outlook of credit rating of the Company is given below:-

Agency Name	Type of Credit Rating	Existing Rating	Upgraded Rating
CRISIL	Rating on Total Bank loan facilities (Rs. 546.52 Crore) :-		
	- Long Term	CRISIL AA-/Positive	CRISIL AA/Stable (Rating revised from "AA-" to "AA" and outlook revised from "Positive" to "Stable")
	- Short Term	CRISIL A1+	CRISIL A1+ *(Re-affirmed)*

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A copy of the letter received from the credit rating agency confirming revision in outlook of credit rating is enclosed herewith for your information.

Thanking you,

Yours faithfully,
For **VARDHMAN SPECIAL STEELS LIMITED**

Sachit Jain

(SACHIT JAIN)
VICE-CHAIRMAN AND MANAGING DIRECTOR

Ratings

CRISIL
An S&P Global Company

Rating Rationale

June 26, 2018 | Mumbai

Vardhman Special Steels Limited

Long-term rating upgraded to 'CRISIL AA/Stable'; short-term rating reaffirmed

Rating Action

Total Bank Loan Facilities Rated	**Rs.546.52 Crore**
Long Term Rating	**CRISIL AA/Stable (Upgraded from 'CRISIL AA-/Positive')**
Short Term Rating	**CRISIL A1+ (Reaffirmed)**

Rs.150 Crore Commercial Paper	**CRISIL A1+ (Reaffirmed)**

1 crore = 10 million
Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale
CRISIL has upgraded its rating on the long-term bank facilities of Vardhman Special Steels Limited (VSSL) to **'CRISIL AA/Stable'** from 'CRISIL AA-/Positive', while reaffirming its rating on the short-term bank facilities and commercial paper at 'CRISIL A1+'.

The upgrade reflects expectation of sustained improvement in operating performance while the financial risk profile is maintained. The company had a rolling mill capacity of 1.5 lakh tonne per annum (tpa) with 95% utilisation. It expanded the capacity to 1.8 lakh tpa in fiscal 2018 and was able to ramp up utilisation quickly to 83%. A further increase to 2.2 lakh tpa is proposed by fiscal 2020. Ramp-up in utilisation of the expanded capacity will lead to growth in revenue over the medium term. Profitability is also expected to improve with increasing economies of scale, and will be further supported by reduction in power tariff in Punjab. Operating income and operating margin are expected at Rs 950'1,000 crore and 9%, respectively, in fiscal 2019.

During fiscal 2018, the financial risk profile has improved aided by the Rs 68 crore rights issue and Rs 50 crore qualified institutional placement (QIP). Despite capital expenditure (capex) plans of about Rs 150 crore over the medium term, the financial risk profile is expected to remain moderate.

The ratings continue to reflect managerial and financial support from the largest shareholder, Vardhman Textiles Ltd (VTXL; rated 'CRISIL AA+/FAAA/Stable/CRISIL A1+'). The ratings also factor in a moderate business risk profile, supported by considerable backward integration.These rating strengths are partially offset by susceptibility to cyclicality in end-user industries and an average financial risk profile.

Analytical Approach
CRISIL has applied its parent notch-up framework to factor in support from VTXL

Key Rating Drivers & Detailed Description
Strengths
*** Managerial and financial support from VTXL**
VSSL, prior to its demerger from VTXL, was the steel division of the latter. Operations continue to be largely controlled by the management of VTXL even after the demerger. That's because around 65% of the equity shares are owned by VTXL, its promoters, and other promoter-holding/investment companies, while the rest is owned by the public. VSSL receives managerial, and financial support from VTXL, uses the Vardhman group logo, and has common banking and treasury operations with VTXL. Furthermore, management has articulated need-based financial support to the company whenever required. Any major change in the shareholding will be key rating sensitivity factor.

*** Moderate business risk profile**
Market position is supported by a strong customer base, including automotive original equipment manufacturers and other established players in the engineering segment. In-house manufacturing of ingots and billets, along with ability to pass on price increases, resulted in moderate operating efficiency. The management's focus on the steel business, high capacity utilisation (around 90%), and considerable backward integration (around 90%) should drive growth in operating income and improve the business risk profile over the medium term.

Weaknesses
*** Susceptibility to cyclicality in end-user industries**
The company is a small player in the alloy steel industry, with only about 3% of the total capacity in India. Its products are used in the automotive, tractor, bearings, engineering, and allied industries; it is dependent on companies in the automotive sector for over 85% of revenue. This dependence subjects the company to risks related to cyclicality in the automotive segment as witnessed during the recent years of economic slowdown. Further, vulnerability to fluctuations in input prices persists.

*** Average financial risk profile**
The interest coverage ratio was 3.1 times in fiscal 2018 (2.3 time in the previous fiscal), and the gearing 0.7 time as on March 31, 2018 (1.6 times a year earlier). Improvement in gearing was on account of equity infusion of Rs 118 crore through rights issue and QIP during fiscal 2018. The operating margin improved to 7.9% in fiscal 2018 (2.4% in fiscal 2015) due to stabilisation and ramp-up of operations of the steel rolling mill. Debt protection metrics are expected to remain comfortable over the medium term due to better operating performance despite capex of Rs 150 crore during fiscals 2019 and 2020.

Outlook: Stable

CRISIL believes the scale of operations will improve on account of enhancement in capacity, while managerial and financial support from VTXL should continue.

Upside scenario:
* Sustained and significant improvement in operating performance
* Reduction in gearing and improvement in capital structure.

Downside scenario:
* Large, debt-funded capex, leading to weakening of the capital structure
* Drop in capacity utilisation, impacting debt protection metrics
* Reduction in support from, or downward rating action on, VTXL.

About the Company
The Vardhman group ventured into the steel business in 1972 by setting up Oswal Steels to manufacture special and alloy steels, with initial capacity of 0.5 lakh tpa. In 1986, the firm acquired a plant in Ludhiana, Punjab, and its capacity was increased to 1 lakh tpa. Oswal Steels became a division of VTXL in 1992. VTXL demerged its steel division as VSSL effective January 1, 2011. VSSL has capacity to manufacture 1.8 lakh tpa of steel billets and 2.1 lakh tpa of steel rolled products. Its manufacturing unit is equipped with a 30-tonne ultra-high-power electric arc furnace with an electro-magnetic stirrer, a vacuum degassing system, and a bloom caster.

Key Financial Indicators

Particulars	Unit	2018	2017
Revenue	Rs crore	865	674
Profit After Tax (PAT)	Rs crore	25	19
PAT Margin	%	2.9	2.8
Adjusted debt/adjusted networth	Times	0.68	1.60
Interest coverage ratio	Times	3.17	2.29

Any other information: Not applicable

Note on complexity levels of the rated instrument:
CRISIL complexity levels are assigned to various types of financial instruments. The CRISIL complexity levels are available on www.crisil.com/complexity-levels. Users are advised to refer to the CRISIL complexity levels for instruments that they consider for investment. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs.Crore)	Rating Assigned with Outlook
NA	Commercial Paper	NA	NA	7-365 days	150	CRISIL A1+
NA	Cash Credit	NA	NA	NA	150	CRISIL AA/Stable
NA	Corporate Loan	NA	NA	Mar-2026	65	CRISIL AA/Stable
NA	Corporate Loan	NA	NA	Dec-2023	75	CRISIL AA/Stable
NA	Foreign Currency Term Loan^	NA	NA	Mar-2018	111.09	CRISIL AA/Stable
NA	Letter of credit & Bank Guarantee	NA	NA	NA	100	CRISIL A1+
NA	Term Loan^	NA	NA	Mar-2018	10.23	CRISIL AA/Stable
NA	Term Loan	NA	NA	Mar-2026	35.20	CRISIL AA/Stable

^CRISIL is awaiting independent confirmation of redemption before withdrawing ratings on these instruments

Annexure - Rating History for last 3 Years

	Current			2018 (History)		2017		2016		2015		Start of 2015
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Commercial Paper	ST	150.00	CRISIL A1+	16-02-18	CRISIL A1+	29-06-17	CRISIL A1+	27-07-16	CRISIL A1+	28-12-15	CRISIL A1+	CRISIL A1+
						09-03-17	CRISIL A1+			02-09-15	CRISIL A1+	
										02-06-15	CRISIL A1+	
										26-02-15	CRISIL A1+	
Fund-based Bank Facilities	LT/ST	446.52	CRISIL AA/Stable	16-02-18	CRISIL AA-/Positive	29-06-17	CRISIL AA-/Positive	27-07-16	CRISIL AA-/Stable	28-12-15	CRISIL AA-/Stable	CRISIL AA-/Stable
						09-03-17	CRISIL AA-/Stable			02-09-15	CRISIL AA-/Stable	
										02-06-15	CRISIL AA-/Stable	
										26-02-15	CRISIL AA-/Stable	

Non Fund-based Bank Facilities	LT/ST	100.00	CRISIL A1+	16-02-18	CRISIL A1+	29-06-17	CRISIL A1+	27-07-16	CRISIL A1+	28-12-15	CRISIL A1+	CRISIL A1+
						09-03-17	CRISIL A1+			02-09-15	CRISIL A1+	
										02-06-15	CRISIL A1+	
										26-02-15	CRISIL A1+	

All amounts are in Rs.Cr.

Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	**Amount (Rs.Crore)**	**Rating**	**Facility**	**Amount (Rs.Crore)**	**Rating**
Cash Credit	**150**	**CRISIL AA/Stable**	**Cash Credit**	**150**	**CRISIL AA-/Positive**
Corporate Loan	**140**	**CRISIL AA/Stable**	**Corporate Loan**	**140**	**CRISIL AA-/Positive**
Foreign Currency Term Loan	**111.09**	**CRISIL AA/Stable**	**Foreign Currency Term Loan**	**111.09**	**CRISIL AA-/Positive**
Letter of credit & Bank Guarantee	**100**	**CRISIL A1+**	**Letter of credit & Bank Guarantee**	**100**	**CRISIL A1+**
Term Loan	**45.43**	**CRISIL AA/Stable**	**Term Loan**	**45.43**	**CRISIL AA-/Positive**
Total	**546.52**	**--**	**Total**	**546.52**	**--**

Links to related criteria
CRISILs Approach to Financial Ratios
CRISILs Bank Loan Ratings - process, scale and default recognition
Rating criteria for manufaturing and service sector companies
Rating Criteria for Steel Industry
CRISILs Criteria for rating short term debt
Criteria for Notching up Stand Alone Ratings of Companies based on Parent Support

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