September 14, 2010

CARE REVISES THE RATINGS ASSIGNED TO BANK FACILITIES OF VALLEY IRON & STEEL CO. LTD.

Ratings

Facilities	Amount (Rs. cr)	Ratings[1]	Remarks
Long-term Bank Facilities	193.90	**'CARE BB+' [Double B Plus]**	Revised from CARE BBB- [Triple B Minus]
Short-term Bank Facilities	90.00	**'PR4' [PR Four]**	Revised from PR3 [PR Three]
Total Facilities	**283.90**		

Rating Rationale

The revision in the ratings takes into account the elevated financial risk profile of VISCO and delay in debt servicing resulting from cash flow mismatches consequent to the delay in the commissioning of the ongoing expansion project. The ratings also take into account the increasing working capital intensity of operations, inherent cyclical trends associated with the steel industry and risk related to residual project execution. However, the above weaknesses are partially offset by the strength derived from the continued support of the promoters in terms of equity infusion, experienced management and moderate leverage ratios.

Going forward, ability of VISCO to complete the ongoing projects within the revised time and cost estimates and its ability to effectively manage its working capital shall be the key rating sensitivities.

Company Profile

Incorporated in 1995, Valley Iron & Steel Co. Ltd. (VISCO) is engaged in the manufacturing of Stainless Steel (SS) billets, flats, angles and heavy steel castings (primarily 200 and 300 series of SS). It has its manufacturing facilities located in Dist. Sirmour, Himachal Pradesh with an installed capacity of 1,20,000 MTPA for SS billets as on December 31, 2009.

VISCO is implementing an integrated expansion project including slew of backward and forward integration projects of 220/11-KV Power Sub-station, industrial gases unit, HR, CR rolling mill etc. The expansion project is also expected to increase the SS billet capacity to 1,45,800 MPTA. The total cost of the expansion project is estimated at Rs.173.96 cr to be funded through debt of Rs.103 cr, equity of Rs.57 cr and balance through internal accruals. The expansion project was scheduled to be completed by March 2010; however it witnessed

[1]Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

delay in commissioning. While the company has declared trials for some of the above projects including the HR mill, the commercial operations as well as remaining projects are expected to be completed by September 30, 2010. The delay in the commissioning of the project led to cash flow mismatches and instance of delay in debt servicing. Further, the utilization of the fund-based working capital limits remained on the higher side over the last few months with almost full utilization.

As per the provisional results for FY10, VISCO achieved net sales of Rs.710 cr, an increase of around 14% over FY09. However, PBILDT and PAT margin declined to 5.20% (down from 5.90% in FY09) and 1.73% (down from 2.58% in FY09) respectively in FY10 on account of increase in cost of sales as well as financial charges.

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CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries /regulators or others are welcome to write to care@careratings.com for any clarifications.

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