

May 4, 2010

**CARE REAFFIRMS RATINGS ASSIGNED TO THE BANK FACILITIES OF VARRSANA ISPAT LTD.**

**Ratings assigned**

<b>Facilities</b>	<b>Amount (Rs. crore)</b>	<b>Ratings<sup>1</sup></b>	<b>Remarks</b>
Long-term Bank Facilities	420.32	<b>'CARE BB+' (Double B plus)</b>	Reaffirmed
Short-term Bank Facilities	150.00	<b>'PR4' (PR Four)</b>	Reaffirmed
<b>Total Facilities</b>	<b>570.32</b>		
Commercial Paper	10.00	<b>'PR3' (PR Three)</b>	Withdrawn

**Rating Rationale**

The ratings factor in the short track record of the company in manufacturing steel related items (the present activity), frequent changes in the area of operation since inception indicating lack of business focus, lack of backward integration for basic raw-materials making VIL vulnerable to raw material price fluctuation risk, volatile finished goods prices, risks associated with implementation of the residual project, poor financials with low profitability & accruals, high gearing & low interest coverage, liquidity pressure being witnessed by the company, cyclical nature in the steel industry along with increasing competition from unorganised sector players and low entry barriers for setting-up long products manufacturing facility. The ratings also take into account experience of the promoters, backward and forward integration initiatives taken by VIL to improve margins and various fiscal benefits available to the company. Future trend in sales price realisation vis-à-vis demand as well as key raw material prices, ability to improve the margins and successful implementation of the ongoing projects will remain the key rating sensitivities.

**Company Profile**

VIL is engaged in manufacturing of sponge iron (96,000 MTPA), billets/ms ingots (2,16,000 MTPA), TMT bars/structural steel (2,40,000 MTPA) and transmission line (14,400 MTPA) at its unit located at Varrsana, in the Gandhidham district of Gujarat. This apart, the company is also engaged in trading of steel related products. The flagship company of the promoters' family is Rei Agro Ltd. – the largest domestic producer of Basmati rice.

In FY08, VIL had undertaken new projects (sponge iron – 60,000 mtpa, waste heat recovery boiler plant – 4MW and tower plant – 14,400 mtpa) to be implemented at its existing location. The project got delayed by more than one year, due to delay in achieving financial closure and general downturn in the industry, and is likely to be completed by September 2010. The aggregate cost of Rs.117.6 crore, is being financed at a debt-equity ratio of 2.13:1.

<sup>1</sup>“Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications”.

On a total income of Rs.438.2 crore, VIL earned a PAT of Rs.6.7 crore during the 15 months period from Apr. 2008 to Jun. 2009 (FY09). Both long-term debt equity and overall gearing ratios deteriorated as on Jun. 30, 2009, over previous account closing date.

**Analyst Contact**

Name: Saurav Chatterjee/Avani Ranka

Tel #: 033-22831800

Mobile 09830714920/09874788444

Email: [saurav.chatterjee@careratings.com](mailto:saurav.chatterjee@careratings.com)/[avani.ranka@careratings.com](mailto:avani.ranka@careratings.com)

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

**Disclaimer**

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

CARE is headquartered in Mumbai, with Offices all over India. The office addresses and contact numbers are given below:

**HEAD OFFICE: MUMBAI**

**Mr. D.R. Dogra**

Managing Director

Cell : +91-98204 16002

E-mail : dr.dogra@careratings.com

**Mr. Rajesh Mokashi**

Dy. Managing Director

Cell : +91-98204 16001

E-mail: rajesh.mokashi@careratings.com

**Mr. Ankur Sachdeva**

Head - Business Development

Cell : +91-9819698985

E-mail: ankur.sachdeva@careratings.com

4<sup>th</sup> Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway,  
Sion (East), **Mumbai 400 022** Tel.: (022) 67543456 Fax: (022) 67543457

**Website: www.careratings.com**

**OFFICES**

<p>Mr.Mehul Pandya Regional Manager 32 TITANIUM Pralhadnagar Corporate Road, Satellite, <b>Ahmedabad - 380 015.</b> Tel – 079 4026 5656 Mobile - 98242 56265 E-mail: mehul.pandya@careratings.com</p>	<p>Mr.Sundara Vathanan Regional Manager Unit No. 8, I floor, Commander's Place No. 6, Raja Ram Mohan Roy Road, Richmond Circle, <b>Bangalore - 560 025.</b> Tel – 080 2211 7140 Mobile – 98803 60878 E-mail: sundara.vathanan@careratings.com</p>
<p>Mr.Ashwini Jani Regional Manager Unit No. O-509/C, Spencer Plaza, 5th Floor, No. 769, Anna Salai, <b>Chennai 600 002</b> Tel: 044 2849 7812/2849 0811 Mobile – 91766 47599 E-mail : ashwini.jani@careratings.com</p>	<p>Mr. Rahul Patni Regional Manager 401, Ashoka Scintilla 3-6-520, Himayat Nagar <b>Hyderabad - 500 029</b>  Tel – 040 _40102030 Mobile – 91600 04563 E-mail: rahul.patni@careratings.com</p>
<p>Mr. Sukanta Nag Regional Manager 3<sup>rd</sup> Floor, Prasad Chambers (Shagun Mall Building) 10A, Shakespeare Sarani <b>Kolkata - 700 071.</b> Tel – 033 2283 1800/1803 Mobile – 98311 70075 E- mail: sukanta.nag@careratings.com</p>	<p>Ms.Swati Agrawal Regional Manager 710 Surya Kiran, 19 K.G. Road, <b>New Delhi - 110 001.</b> Tel – 011 2331 8701/2371 6199 Mobile – 98117 45677 E-mail : swati.agrawal@careratings.com</p>