

May 5, 2010

**CARE ASSIGNS 'BB+' RATING TO THE BANK FACILITIES OF
VARUN INDUSTRIES LTD.**

CARE has assigned a '**CARE BB+**' [**Double B Plus**] rating to the Long-term Bank Facilities aggregating Rs.415 crore of Varun Industries Limited (VIL). This rating is applicable to facilities having tenure of over one year. Facilities with this rating are considered to offer inadequate safety for timely servicing of debt obligations. Such facilities carry high credit risk.

CARE assigns '+' or '-' signs to be shown after the assigned rating (wherever necessary) to indicate the relative position within the band covered by the rating symbol.

These ratings are assigned to the long-term bank facilities aggregating Rs.415 crore.

Facilities	Amount (Rs. crore)	Rating
Long-term Bank Facilities	415.00	'CARE BB+'
Total	415.00	

Rating Rationale

The ratings are constrained by VIL's high leverage, the significant refinancing risk associated with its short-term liabilities, substantial corporate guarantees extended by the company to subsidiaries/group companies, consistently high utilisation of fund-based limits, its future commitment towards various capital-intensive projects to be undertaken in its subsidiaries and overall absence of a coherent business strategy on the part of its management. The rating is further constrained by the company's recent foray into the onshore rig business, a completely new field for the company as well as its promoters.

The ratings derive strength from the promoters' experience in export of stainless steel utensils and trading of diamonds and professionally qualified management.

VIL's ability to achieve the envisaged sales and profitability levels in each of its business areas, including its recent onshore rig venture is the key rating sensitivity.

Company Profile

VIL is engaged in exports of stainless steel houseware, cookware and kitchenware, other utility items and trading of polished diamonds. The company also trades in general merchandise based on demand from export markets. Further, VIL has a manufacturing facility for stainless steel utensil at Vasai and a stainless steel re-rolling plant in Jodhpur, Rajasthan of 10,000 mtpa. VIL also has recently acquired an onshore rig providing rig drilling on charter basis and has set up wind turbine generators in Jaisalmer, Rajasthan.

On a total income of Rs.1,200.43 crore, VIL posted a PAT of Rs.13.01 crore in FY09. VIL reported net sales of Rs.1,017.09 crore and a PAT of Rs.21.05 crore in 9MFY10.

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CARE 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.

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.

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