

Rating Advisory February 04, 2020 | Mumbai

VMS Industries Limited

Advisory as on February 04, 2020

This rating advisory is provided in relation to the rating of VMS Industries Limited

The key rating sensitivity factors for the rating include:

- Prices of steel scrap, international freight index
- Forex hedging policy
- Quantum of investments, loans extended
- Capital expenditure (capex) and its funding mix

CRISIL Ratings has a policy of keeping its accepted ratings under constant and ongoing monitoring and review. Accordingly, it seeks regular updates from companies on business and financial performance. CRISIL is yet to receive adequate information from VMS Industries Limited (VMS) to enable it to undertake a rating review. CRISIL is taking all possible efforts to get the rated entity to cooperate with its rating process for enabling it to carry out the rating review.

CRISIL views information availability risk as a key factor in its assessment of credit risk. (Please refer to CRISIL Ratings publication dated April 30, 2012 - 'Information Availability - a key risk factor in credit ratings')

If VMS continues to delay the provisioning of information required by CRISIL to undertake a rating review then, in accordance with circular SEBI/HO/MIRSD/MIRSD4/CIR/P/2016/119 dt Nov 1, 2016 and SEBI/HO/MIRSD/ MIRSD4/ CIR/ P/ 2017/ 71 dt June 30, 2017 issued by Securities and Exchange Board of India, CRISIL will carry out the review based on best available information and issue a press release.

About The Company

VMS was set up by Mr Manoj Kumar Jain as a private limited company in 1991 and was reconstituted as a limited company with effect from January 29, 2010. It has issued an initial public offering in June 2011. VMS undertakes ship-breaking activity at Alang, Gujarat, which is the leading center for ship-breaking and recycling in Asia. VMS TMT is involved in trading of TMT bars.

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Rating Rationale

November 02, 2018 | Mumbai

VMS Industries Limited

Rated amount enhanced

Rating Action

Total Bank Loan Facilities Rated	Rs.110.5 Crore (Enhanced from Rs.90 Crore)
Long Term Rating	CRISIL BBB-/Stable (Reaffirmed)
Short Term Rating	CRISIL A3 (Reaffirmed)

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL ratings on bank facilities of VMS Industries Limited (VMS) continue to reflect the extensive experience of the promoter in the ship-breaking industry, and adequate financial risk profile because of comfortable capital structure. These strengths are partially offset by susceptibility to cyclicalities in the ship-breaking industry and to regulatory changes, volatile operating margin, and working capital-intensive operations.

CRISIL had upgraded its ratings on VMS to 'CRISIL BBB-/Stable/CRISIL A3' from 'CRISIL BB+/Stable/CRISIL A4+' through its rating release dated September 27, 2018.

The rating upgrade reflected improvement in financial and business risk profiles of VMS. During fiscal 2017 and current financial year, the company has recalled its loans, advances, investments in group companies, third parties (about Rs 40 crore as on March 31, 2018) and has invested them in its ship breaking, TMT business. Currently the company's exposure is down to about Rs 9 crore, which will reduce to about Rs 5 crore by the end of financial year. The rating action factors in the managements' stance on its balance exposure within Rs 5 crore over medium term. The increased own funding has meant that the reliance on external funding for ship procurement shall be restrained to that extent. The business risk profile has also improved, supported by continuous upgradation of its ship breaking yard, scale up in operations and benefits from increased own capital deployment.

Analytical Approach

CRISIL has consolidated the business and financial risk profile of VMS and its wholly own subsidiary VMS TMT Pvt Ltd, owing to business and financial linkages.

Key Rating Drivers & Detailed Description

Strengths

* **Extensive industry experience of the promoter:** VMS should continue to benefit from its promoter's experience of 25 years in the ship-breaking industry.

* **Healthy financial risk profile:** Networth stood at Rs 54.6 crore, gearing was 0.35 time, and total outside liabilities to tangible networth ratio was 1.2 times as on March 31, 2018. Debt protection measures are adequate, with interest coverage ratio of 2.11 times and net cash accrual to total debt ratio at 0.13 time for fiscal 2018. More importantly, VMS now enjoys a much cleaner balance sheet.

Weakness

* **Susceptibility to cyclical in the ship-breaking industry and to regulatory changes:** The ship-breaking industry is cyclical and the viability of the business is inversely correlated with the international freight index. Foreign exchange (forex) rates and scrap rates also affect business viability. Furthermore, the domestic ship-breaking industry is regulated by strict pollution control norms because of the hazardous nature of asbestos, lead, and other acids and chemicals contained in the ships.

* **Low and volatile operating margin:** Operating margin was low at 2.5-4% over the past five fiscals, due to limited value addition in operations, and susceptibility to fluctuations in forex rates and scrap prices, among other factors.

* **Working capital-intensive operations:** Gross current assets exceeded 6 months as on March 31, 2018, primarily driven by high inventory.

Outlook: Stable

CRISIL believes VMS will continue to benefit from healthy capitalisation and extensive promoter experience. The outlook may be revised to 'Positive' if there is significant and sustainable increase in cash accrual along with improved risk management practices. The outlook may be revised to 'Negative' if profitability falls because of adverse movement in steel scrap prices or forex rates, or if liquidity is impacted by stretched working capital cycle, or if there is an increase in loans and advances to others.

About the Company

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Key Financial Indicators

Particulars	Unit	2018	2017
Revenue	Rs. Cr.	139	114
Profit After Tax	Rs. Cr.	1.5	0.9
PAT margin		1.1	0.7
Adjusted Debt/Adjusted Net worth	Times	0.35	0.11
Interest coverage	Times	2.1	3.5

Any other information: Not applicable

Note on complexity levels of the rated instrument:

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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	Cash Credit#	NA	NA	NA	15	CRISIL BBB-/Stable
NA	Letter of Credit	NA	NA	NA	95.5	CRISIL A3

#Interchangeable with LC

Annexure - Rating History for last 3 Years

Instrument	Type	Current		2018 (History)		2017		2016		2015		Start of 2015
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund-based Bank Facilities	LT/ST	15.00	CRISIL BBB-/Stable	27-09-18	CRISIL BBB-/Stable	28-09-17	CRISIL BB+/Stable	25-04-16	CRISIL BB+/Negative			CRISIL BB+/Stable
Non Fund-based Bank Facilities	LT/ST	95.50	CRISIL A3	27-09-18	CRISIL A3	28-09-17	CRISIL A4+	25-04-16	CRISIL A4+			CRISIL A4+

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#	15	CRISIL BBB-/Stable	Cash Credit	10	CRISIL BBB-/Stable
Letter of Credit	95.5	CRISIL A3	Letter of Credit	80	CRISIL A3
Total	110.5	--	Total	90	--

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Links to related criteria

[CRISILs Approach to Financial Ratios](#)

[CRISILs Bank Loan Ratings - process, scale and default recognition](#)

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