

January 30, 2015

Facilities	Amount (Rs. Crore)	Ratings
Cash Credit	15.00	SMERA BBB-/Stable (Assigned)
Letter of Credit	3.00	SMERA A3 (Assigned)
Cash Credit (proposed)	3.00	SMERA BBB-/Stable (Assigned)

SMERA has assigned a long-term rating of '**SMERA BBB-**' (read as **SMERA triple B minus**) and a short-term rating of '**SMERA A3**' (read as **SMERA A three**) to the abovementioned bank facilities of R. P. Metal Sections Private Limited (RPMSPL). The outlook is '**Stable**'. The ratings derive comfort from the company's experienced management and strong brand image. The ratings are also supported by the company's strong revenue growth, healthy profitability and comfortable financial risk profile. However, the ratings are constrained by the company's exposure to geographic and supplier concentration risks in an intensely competitive segment of the steel industry. The ratings are also constrained by the susceptibility of the company's profit margins to volatility in raw material prices.

RPMSPL, incorporated in 1989, is a Karnataka-based company engaged in manufacturing of ERW (electric resistance welding) steel pipes, tubes and metal sections. RPMSPL benefits from its experienced management. The promoters of the company have around three decades of experience in the steel industry. RPMSPL also benefits from the established brand image of its products.

RPMSPL's revenues have grown at a strong compound annual growth rate (CAGR) of 41 per cent over the past five years. The company's operating margin increased from 5.70 per cent in FY2012-13 (refers to financial year, April 01 to March 31) to 6.62 per cent in FY2013-14. RPMSPL reported net profit margin of 2.30 per cent in FY2013-14. The company registered healthy return on capital employed (RoCE) of 25.76 per cent in FY2013-14. RPMSPL's comfortable financial risk profile is marked by moderate gearing (debt-to-owners' funds ratio) of 1.40 times as on March 31, 2014 and strong interest coverage ratio (ICR) of 4.04 times in FY2013-14.

RPMSPL's operations are concentrated in Karnataka. The company is susceptible to supplier concentration risk arising on account of high procurement of raw material from Essar Steel India Limited. RPMSPL operates in an intensely competitive segment of the steel industry. The company's profit margins are highly susceptible to volatility in raw material prices.

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Outlook: Stable

SMERA believes RPMSPL will maintain a stable business risk profile over the medium term. The company will continue to benefit from its experienced management and strong brand image. The outlook maybe revised to 'Positive' in case the company registers healthy growth in revenues on the back of market expansion. The outlook maybe revised to 'Negative' in case of deterioration in the company's financial risk profile.

About the company

RPMSPL, incorporated in 1989, is a Karnataka-based company engaged in manufacturing of ERW steel pipes, tubes and metal sections used in general engineering, automobile and furniture industries. The overall operations of the company are managed by Mr. Sampatraj Bagrecha and Mr. Rajesh Sampatraj.

For FY2013–14, RPMSPL reported profit after tax (PAT) of Rs.3.03 crore on total operating income of Rs.127.51 crore, as compared with PAT of Rs.2.08 crore on total operating income of Rs.98.91 crore in FY2012–13. RPMSPL's net worth stood at Rs.11.54 crore as on March 31, 2014, as compared with Rs.8.86 crore a year earlier.

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