



Press Release

Rajasthan Ispat Udyog

October 05, 2017

Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 25.00 Cr.
Long Term Rating	SMERA BB- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

SMERA has reaffirmed long-term rating of '**SMERA BB-' (read as SMERA BB minus)** on the Rs. 25.00 crore bank facilities of Rajasthan Ispat Udyog. The outlook is '**Stable**'.

Rajasthan Ispat Udyog (RIU), is a Jaipur-based proprietorship concern, established in 1970 by Mr. Bhagwat Prasad Khandelwal. The firm is engaged in the trading of iron and steel products - TMT Bars, HR Sheet and HR Plates, angles, channels, and beams.

Key Rating Drivers

Strengths

- **Established operational track record and experienced management**

RIU is engaged in the trading of iron and steel products since 1970. The firm is also an authorised distributor for reputed players like Steel Authority of India Limited (SAIL), Rashtriya Ispat Nigam and Essar Steel India Limited. RIU also benefits from its experienced management. Mr. Bhagwat Prasad Khandelwal (Proprietor) possesses over four decades of experience in the steel trading business. SMERA believes that RIU will continue to benefit from its established position in the market and experienced management.

- **Moderate financial risk profile**

RIU has a moderate financial risk profile marked by tangible networth of Rs.30.19 crore as on 31 March, 2016 as against Rs.11.83 crore as on 31 March, 2015. The tangible networth of Rs.30.19 crore constitutes interest bearing unsecured loans from the promoter to the tune of Rs.16.67 crore, which is subordinated to bank debt. This has resulted in improvement in gearing to 0.56 times as on 31 March, 2016 as against 2.41 times as on 31 March, 2015. The total debt of Rs.16.99 crore as on 31 March, 2016 comprises mainly working capital funding of Rs.16.20 crore and term loan of Rs. 0.79 crore. RIU has a moderate interest coverage ratio of 2.15 times in FY2015-16 as against 1.89 times in FY2014-15. SMERA believes that RIU will maintain its moderate financial risk profile on the back of funding support from the promoter.

Weaknesses

- **Uneven revenue trend**

RIU registered a 10.12 per cent decline in revenue in FY2015-16 over FY2014-15. The revenue stood at Rs.286.97 crore in FY2015-16 as against Rs.319.29 crore in FY2014-15 and Rs. 343.69 crore in FY2013-14. The decline is primarily on account of lower demand and fall in steel prices. However, as per provisional financials for FY2016-17, the firm registered revenue of Rs. 315.80 crore. During the period from April to June 2017, RIU registered revenue of Rs.82.00 crore.

- **Low profitability**

RIU operates on thin margins due to the trading nature of business. The EBITDA margins stood low at 1.94 percent in FY2015-16 as against 2.26 percent in FY2014-15. Further, the net profit margins

stood at 0.75 per cent in FY2015-16 as against 0.70 per cent in FY2014-15.

• **Inherent cyclicalities in the steel industry and intense competition**

RIU's revenues and profitability are susceptible to the inherent cyclicalities in the steel industry and volatility in steel prices. The firm operates in a highly fragmented and competitive industry which consists of a large number of organised and unorganised players. RIU's ability to sustain revenues while maintaining profitability amidst stiff competition will be a key rating monitorable.

Analytical Approach

SMERA has considered the standalone business and financial risk profile of RIU to arrive at the rating.

Outlook: Stable

SMERA believes that RIU will maintain a stable outlook and continue to benefit over the medium term from its experienced management and established relations with customers and suppliers. The outlook may be revised to 'Positive' if the scale of operations increases while achieving improvement in profitability. Conversely, the outlook may be revised to 'Negative' in case of failure in achieving the projected scalability in revenues or if the firm registers deterioration in the financial risk profile on account of higher-than-expected increase in debt-funded working capital requirements.

About the Rated Entity - Key Financials

For FY2015-16, RIU reported Profit after Tax (PAT) of Rs.2.14 crore on total operating income of Rs.286.97 crore compared with PAT of Rs. 2.25 crore on total operating income of Rs.319.29 crore in FY2014-15. The tangible net worth stood at Rs.30.19 crore as on 31 March, 2016 as against Rs.11.83 crore in the previous year.

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Trading Entities - <https://www.smera.in/criteria-trading.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
31-May-2016	Cash Credit	Long Term	INR 25	SMERA BB- / Stable
17-Mar-2015	Cash Credit	Long Term	INR 25	SMERA BB- / Stable

***Annexure - Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not	Not	20.00	SMERA BB- / Stable

		Applicable	Applicable		
Proposed	Not Applicable	Not Applicable	Not Applicable	5.00	SMERA BB- / Stable

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ABOUT SMERA

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