

## Press Release

### C.P Re-Rollers Limited (CPRL)

April 04, 2018

#### Rating Upgraded & Reaffirmed



<b>Total Bank Facilities Rated</b>	Rs.31.73 crore
<b>Long Term Rating</b>	SMERA BB+/ Stable (Upgraded from SMERA BB/Stable)
<b>Short Term Rating</b>	SMERA A4+ (Reaffirmed)

*\*Refer annexure for details*

SMERA has upgraded the long term rating to '**SMERA BB+** (read as SMERA double B plus)' from '**SMERA BB**' (read as SMERA double B) and reaffirmed the short term rating of '**SMERA A4+**' (read as SMERA A four plus) on the Rs.31.73 crore bank facilities of C P Re-Rollers Limited (CPRL). The outlook is 'Stable'.

The upgrade is in view of the improved scalability and comfortable financial risk profile. SMERA believes that CPRL will maintain its financial risk profile along with improved scalability over the medium term.

CPRL, incorporated in 2000, is engaged in the manufacturing of ingots, TMT bars and structural steel products (MS rounds, angles and channels). The company was promoted by Mr. Kumar Chand Chawla and Mr. Dilip Chawla.

#### Key rating drivers

##### **Strengths**

##### **Experienced management and long track record of operations**

CPRL was incorporated in 2000 by Mr. Kumar Chand Chawla, and Mr. Mohan Chawla who possess experience of around two decades in the steel industry.

SMERA believes that CPRL will continue to benefit from its experienced management and established relations with customers.

##### **Comfortable financial risk profile**

The financial risk profile is comfortable marked by net worth of Rs.50.56 crore as on 31 March, 2017 as against Rs.49.80 crore as on 31 March, 2016. The gearing (debt-equity) stood at 0.69 times as on 31 March, 2017 as against 0.76 times as on 31 March, 2016. The total debt of Rs.35.12 crore as on 31 March, 2017 comprises unsecured loan from directors of Rs.7.21 crore and short term debt of Rs.27.91 crore. The Interest Coverage Ratio stood at 1.82 times in FY2016-17 as against 1.81 times in FY2016. The Total Outside Liabilities to Tangible Net worth (TOL/TNW) stood at 1.37 times as on 31 March, 2017 as against 1.79 times as on 31 March 2016.

SMERA believes that the financial risk profile of the company will improve in the absence of major debt funded capex backed by healthy net cash accruals.

## Weaknesses

### Intensive working capital operations

The operations are working capital intensive marked by Gross Current Asset (GCA) days of 120 in FY2016-17 as against 123 in FY2015-16. This was due to elongated debtor and inventory days of around 115 and 44 respectively for FY2016-17. The company's liquidity profile is moderately stretched as its average working capital limit utilisation has been ~90 percent in the last six months ended February 2018.

### Volatility in raw material prices and finished goods

CPRL sources raw materials (sponge iron & steel scrap) from suppliers at spot rates. With raw material cost constituting about 70 percent of the total cost of sales the profitability is exposed to adverse movements in the prices of finished goods and/or raw materials. However, the company passes on the price increase to its customers through price escalation clause in agreements.

### Exposure to cyclicalities in the steel industry

The company is exposed to a highly fragmented and competitive steel trading industry due to lack of entry barriers which also limits the pricing flexibility. The company is also exposed to the inherent cyclicalities in the steel industry due to its dependence on real estate and construction industries which are correlated to economic cycles. Further, the industry has been reeling under the pressure of cheaper imports. Slowdown in demand and threat of cheaper imports may result in piling up of inventory or the company may operate at low margins.

### **Analytical approach:**

SMERA has considered the standalone business and financial risk profiles of CPRL to arrive at the rating.

### **Outlook: Stable**

SMERA believes that CPRL will maintain a 'Stable' outlook over the medium term and benefit from the extensive experience of its promoters. The outlook may be revised to 'Positive' if the company scales up its operations significantly with improvement in profitability and better working capital cycle. Conversely, the outlook may be revised to 'Negative' if the company reports lower than envisaged sales or profitability and weakening of capital structure due to higher working capital requirements.

### About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	159.00	122.06	120.61
EBITDA	Rs. Cr.	8.83	7.74	7.64
PAT	Rs. Cr.	2.92	3.06	3.07
EBITDA Margin	(%)	5.56	6.34	6.33
PAT Margin	(%)	0.49	0.56	0.52
ROCE	(%)	2.33	3.07	3.06
Total Debt/Tangible Net Worth	Times	0.69	0.76	0.82
PBDIT/Interest	Times	1.82	1.81	1.75
Total Debt/PBDIT	Times	3.85	4.19	4.29
Gross Current Assets (Days)	Days	178	265	146

### Any other information

Not Applicable

### Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing entities- <https://www.smera.in/criteria-manufacturing.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>

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

None

### Rating History for the last three years:

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
28 Jan, 2017	Cash Credit	Long Term	28.40	SMERA BB/ Stable (Reaffirmed)
	Letter of Credit	Short Term	2.45	SMERA A4+ (Reaffirmed)
	Bank Guarantee	Short Term	0.88	SMERA A4+ (Reaffirmed)
7 Oct, 2015	Cash Credit	Long Term	28.40	SMERA BB/ Stable (Assigned)
	Letter of Credit	Short Term	2.45	SMERA A4+ (Assigned)

	Bank Guarantee	Short Term	0.88	SMERA A4+ (Assigned)
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**\*Annexure - Details of instruments rated:**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	28.40	SMERA BB+/ Stable (Upgraded)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	2.45	SMERA A4+ (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.88	SMERA A4+ (Reaffirmed)

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**ABOUT SMERA**

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