

Press Release

Deem Roll Tech Limited

August 31, 2018

Rating Upgraded



Total Bank Facilities Rated	Rs. 41.48 Cr.
Long Term Rating	ACUITE B+/Stable (Upgraded from ACUITE D)
Short Term Rating	ACUITE A4 (Upgraded from ACUITE D)

* Refer Annexure for details

Rating Rationale

Acuite has upgraded the long term rating to '**ACUITE B+**' (read as **ACUITE B plus**) from '**ACUITE D**' (read as **ACUITE D**) and short term rating to '**ACUITE A4**' (read as **ACUITE A four**) from '**ACUITE D**' (read as **ACUITE D**) to the Rs.41.48 crore bank facilities of Deem Roll Tech Limited (DRTL). The outlook is '**Stable**'.

The upgrade revision is in view of the repayments of debt being done in a timely manner for last six months ended July, 2018. The repayment obligations with regards to term loan interest and principal payments are paid on time.

DRTL, incorporated in 2003, is Gujarat-based Company engaged in manufacturing of cast iron and steel rolls. The company was initially engaged in undertaking job-work for machining of steel rolls. In 2005, DRTL started manufacturing of cast iron and steel rolls. The company has manufacturing units in Ganeshpura (Gujarat) with installed capacity of 6000 metric tonnes per annum (MTPA).

Analytical approach:

Acuite has considered the standalone business and financial risk profiles of DRTL to arrive at this rating.

Key Rating Drivers:

Strengths

- **Curing of default**

The company has cured its default and the debt servicing is done on time. There are no instances of default and delays in debt servicing for the last six months ended July, 2018.

- **Experienced Promoter**

DRTL is promoted by Mr. Jyoti Bhattacharya who has more than a decade experience in iron and steel industry. Further, the company has reputed customer base which includes IISCO Steel Authority of India, Rashtriya Ispat Nigam Limited, Durgapur Steel Plant, Bhilai Steel Plant. They also have an order book position of Rs.69.89 crore from these clients which gives revenue visibility for future.

Acuite believes that the company will be benefited by the experienced promoter and established relationship with its customers and suppliers over the medium term.

- **Growth in operating income and profitability margins:**

DRTL has registered growth in operating income and profitability during the period FY2016 to FY2018 under the study. The operating income stood at Rs.47.18 crore in FY2018 as against Rs.42.97 crore in FY2017 and Rs.36.47 crore in FY2016. The reason for growth in revenues is on account of better industry sentiments from FY2017 as compared to FY2015 and FY2016 where there was slow down in steel rolls industry. Also the market competition has reduced as the 4 major competitors (Tata Rolls Limited, JEMCO, a subsidiary of Tata Steels, GPI Limited and Shefali Steel Limited) have either discontinued or substantially reduced production of steel rolls.

The company has booked revenue of Rs.~16.00 crore for the period April to July, 2018. The profitability margins have also improved substantially during the period FY2016 to FY2018 under the study. The operating margins stood at 21.15 percent in FY2018 as against 16.91 percent in FY2017. This is majorly on account of decline in raw material cost in FY2018 over FY2017. The net profitability margins also stood healthy at 7.98 percent in FY2018 as against 3.43 percent in FY2017.

The operating income and the profitability is expected to be sustained over the medium term on account of healthy order book position of around Rs.69.89 crore from reputed customers.

- **Improvement in financial risk profile:**

The financial risk profile of DRTL has improved marked by increase in net worth on account of better retention of profits as the same stood at Rs.11.54 crore as on 31 March, 2018 as against Rs.7.77 crore as on 31 March 2017. The gearing has also improved at 2.46 times as on 31 March, 2018 as against 4.03 times as on 31 March 2017 on account of repayment of term loans. The total debt of Rs.28.35 crore outstanding as on 31 March, 2018 comprises Rs.12.74 crore as secured term loan from the bank, Rs.0.45 crore as unsecured loan from the promoter and Rs.15.16 crore as working capital borrowings from the bank. Interest Coverage Ratio (ICR) has improved and stood at 2.39 times in FY2018 as against 1.67 times in FY2017. Debt Service Coverage Ratio (DSCR) has also improved and stood at 1.35 times in FY2018 as against 1.02 times in FY2017. The net cash accruals have improved at Rs.5.27 crore in FY2018 as against Rs.3.01 crore in FY2017. NCA/TD ratio stood at 0.19 times in FY2018 as against 0.10 times in FY2017.

Acuité believes that DRTL will maintain its financial risk profile backed by healthy generation of net cash accruals over the medium term.

Weaknesses

- **Working capital intensive operations:**

The operations of DRTL has remained working capital intensive, however improved in FY2018 over FY2017 marked by Gross Current Assets (GCA) of 293 days in FY2018 as against 309 days in FY2017. This is on account of improvement in realisation from inventory. The company needs to maintain inventory of six months and majority of the inventory is of Work in progress as the time taken for preparation of one steel roll is around 2-3 months and then it is sent in casting moulds. The debtor days stood at 68 days in FY2018 as against 42 days in FY2017. The company gets extended credit period from its suppliers of around 120 to 150 days as all the payments are LC backed payments. The average bank limit utilisation stood at 99 percent for the last six months ended June, 2018.

Acuité believes the operations of DRTL will remain working capital intensive being into steel roll industry wherein high inventory holding period is inherent.

- **Susceptibility of profitability to volatility in raw material prices:**

DRTL is exposed to volatility in raw material prices majorly iron scrap which is used for manufacturing iron and steel rolls.

Outlook: Stable

Acuite believes that the outlook on DRTL will remain 'Stable' over the medium term on account of the experienced management and the improvement in revenue trend. The outlook may be revised to 'Positive' in case of further improvement in profitability and financial risk profile of the company. Conversely, the outlook may be revised to 'Negative' in case of deterioration in financial risk profile, working capital cycle or decline in operating margins.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	47.18	42.97	36.47
EBITDA	Rs. Cr.	9.98	7.27	0.97
PAT	Rs. Cr.	3.76	1.47	(5.66)
EBITDA Margin	(%)	21.15	16.91	2.66
PAT Margin	(%)	7.98	3.43	(15.52)
ROCE	(%)	19.88	13.60	(1.14)
Total Debt/Tangible Net Worth	Times	2.46	4.03	5.66
PBDIT/Interest	Times	2.39	1.67	0.20
Total Debt/PBDIT	Times	2.84	4.18	34.98
Gross Current Assets (Days)	Days	293	309	368

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
12-Mar-2018	Term loans	Long Term	3.62	ACUITE D (Reaffirmed)
	Term loans	Long Term	5.60	ACUITE D (Reaffirmed)
	Term loans	Long Term	2.44	ACUITE D (Reaffirmed)
	Cash Credit	Long Term	9.20	ACUITE D (Reaffirmed)
	Term loans	Long Term	3.25	ACUITE D (Reaffirmed)
	Term loans	Long Term	1.00	ACUITE D (Reaffirmed)
	Term loans	Long Term	1.26	ACUITE D (Reaffirmed)
	Cash Credit	Long Term	2.30	ACUITE D (Reaffirmed)
	Term loans	Long Term	1.50	ACUITE D (Reaffirmed)
	Term loans	Long Term	0.66	ACUITE D (Reaffirmed)
	Cash Credit	Long Term	3.50	ACUITE D (Reaffirmed)
	Letter of credit	Short Term	2.15	ACUITE D (Reaffirmed)
	Bank guarantee	Short Term	1.00	ACUITE D (Reaffirmed)
	Letter of credit	Short Term	1.00	ACUITE D (Reaffirmed)
	Bank guarantee	Short Term	3.00	ACUITE D (Reaffirmed)
30-Dec-2016	Term Loan	Long Term	6.87	ACUITE D (Reaffirmed)
	Letter of Credit	Short Term	3.15	ACUITE D (Reaffirmed)
	Bank Guarantee	Short Term	4.00	ACUITE D (Reaffirmed)
	Working Capital Term Loan	Long Term	8.10	ACUITE D (Reaffirmed)
	Cash Credit	Long Term	15.00*	ACUITE D (Reaffirmed)
	Term Loan	Long Term	4.36	ACUITE D (Reaffirmed)
10-Jun-2016	Working Capital Term Loan	Long Term	8.10	ACUITE D (Reaffirmed)
	Cash Credit	Long Term	15.00	ACUITE D (Reaffirmed)
	Term Loan	Long Term	4.36	ACUITE D (Reaffirmed)
	Term Loan	Long Term	6.87	ACUITE D (Reaffirmed)

	Letter of Credit	Short Term	3.15	ACUITE D (Reaffirmed)
	Bank Guarantee	Short Term	4.00	ACUITE D (Reaffirmed)
30-Mar-2015	Working Capital Term Loan	Long Term	8.10	ACUITE D (Assigned)
	Cash Credit	Long Term	15.00*	ACUITE D (Assigned)
	Letter of Credit	Short Term	3.15	ACUITE D (Assigned)
	Bank Guarantee	Short Term	4.00	ACUITE D (Assigned)
	Term Loan	Long Term	6.87	ACUITE D (Assigned)
	Term Loan	Long Term	4.36	ACUITE D (Assigned)

*Includes sub-limit of Loan Equivalent Risk (LER) of Rs.0.15 crore.

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Term loans	Not Applicable	Not Applicable	Not Applicable	3.62	ACUITE B+/Stable (Upgraded from ACUITE D)
Term loans	Not Applicable	Not Applicable	Not Applicable	5.60	ACUITE B+/Stable (Upgraded from ACUITE D)
Term loans	Not Applicable	Not Applicable	Not Applicable	2.44	ACUITE B+/Stable (Upgraded from ACUITE D)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	9.20	ACUITE B+/Stable (Upgraded from ACUITE D)
Term loans	Not Applicable	Not Applicable	Not Applicable	3.25	ACUITE B+/Stable (Upgraded from ACUITE D)
Term loans	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE B+/Stable (Upgraded from ACUITE D)
Term loans	Not Applicable	Not Applicable	Not Applicable	1.26	ACUITE B+/Stable (Upgraded from ACUITE D)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.30	ACUITE B+/Stable (Upgraded from ACUITE D)
Term loans	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE B+/Stable (Upgraded from ACUITE D)
Term loans	Not Applicable	Not Applicable	Not Applicable	0.66	ACUITE B+/Stable (Upgraded from ACUITE D)

Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.50	ACUITE B+/Stable (Upgraded from ACUITE D)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	2.15	ACUITE A4 (Upgraded from ACUITE D)
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A4 (Upgraded from ACUITE D)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A4 (Upgraded from ACUITE D)
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A4 (Upgraded from ACUITE D)

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About Acuité Ratings & Research:

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