

Press Release

NIF Ispat Limited

October 31, 2018

Rating Assigned and Reaffirmed



Total Bank Facilities Rated*	Rs.29.52 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable (Assigned and Reaffirmed)
Short Term Rating	ACUITE A3 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has assigned its '**ACUITE BBB-**' (read as **ACUITE triple B minus**) rating to the Rs. 11.00 crore bank facilities of NIF Ispat Limited (NIFIL) while reaffirming the rating on the existing rated bank facilities of Rs. 15.00 Crore. The outlook is 'Stable'. Acuite has also reaffirmed its '**ACUITE A3**' (read as **ACUITE A three**) on the Rs. 3.52 crore short-term bank facilities of the company.

NIFIL, incorporated in 1955 is a West Bengal-based company engaged in the manufacturing of cast iron and ductile iron products. The company is led by Director, Mr. Girish Kumar Madhogaria. NIFIL has three foundries and are located in Howrah, West Bengal. The combined capacity of all the units together is 18,000 MT per year.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

Incorporated in 1955, NIFIL has a long operational track record of more than six decades in the cast iron and ductile iron manufacturing business. NIFIL has overseas customer base: about ~10 percent of its revenue is derived from domestic market and ~90 percent from the international market such as U.S.A, Germany, Greece, Oman and Italy to name a few. NIFIL is promoted by Mr. Sugam Madhogaria and Mr. Girish Kumar Madhogaria, who also manages the day to day operations of the company. They possess more than three decades of experience in the aforementioned line of business. Further, the management of the company over the years has built a healthy relationship with major customers such as SIP Industries (SIPI), Capital Foundry (CF), Zurn Gmbh and Co. (ZGC), Oympic Foundry (OF). Acuite believes that the company will continue to benefit through the promoter's extensive industry experience and established relation with its customers over the medium term.

- **Moderate scale of operations and profitability**

The scale of operations has been moderate over the last three years marked by revenue of Rs.66.97 crore in FY2018 as against Rs.53.61 crore in FY2017. Around 90 percent of the revenue is generated through exports to USA, Europe, and Middle East. The company registered operating margin of 7.34 percent in 2018 as against 6.03 percent in 2017.

- **Moderate financial risk profile**

The financial risk profile is marked by moderate net worth and debt protection measures. The net worth of the company is average at around Rs.25.45 crore as on 31 March, 2018 as against Rs.23.46 crore as on 31 March, 2017. NIFIL has followed a conservative financial policy as reflected by peak gearing of 0.87 times over the last three years through 2017-18. The gearing of the company stood at 0.78 times as on March 31, 2018 as against 0.87 times as on 31 March, 2017.

Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.28 times as on 31 March, 2018 as against 1.04 times as on 31 March, 2017. Healthy operating margins have resulted in moderate debt protection measures. Interest Coverage Ratio (ICR) remained moderate at 3.70 times in FY2018 and 4.38 times in FY2017. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.14 times as on 31 March, 2018 as against 0.08 times as on 31 March, 2017. Debt Service Coverage Ratio (DSCR) stood at 3.08 times for FY2018 as against 3.20 times in FY2017. Acuite believes that the financial risk profile of NIFIL will continue to remain moderate over the medium term on account of its improving scale of operations and conservative financial policy.

Weaknesses

• Working capital intensive operations

The working capital management is marked by Gross Current Assets (GCA) of 209 days in FY2018 as against 197 days in FY2017. The company maintains inventory of around 70 days on an average and extends clean credit of around 80 days to its customers, resulting in high GCA days. The inventory and debtor levels stood at 71 days and 116 days in FY2018 as against 70 days and 75 days in FY2017, respectively. As a result, the average utilisation of bank limits stood at ~85 percent in the last six months. Acuite believes that the working capital requirements will continue to remain high over the medium term on account of its high inventory requirements.

• Susceptibility of margins to volatility in raw material prices

Raw material forms a major component of the total cost for the company. The prices of pig iron, the basic raw material for NIFIL's products are volatile in nature affecting the profit margins of the company. Further, the company exports around 90 percent of its sales. As a result, the profit margins are susceptible to foreign exchange fluctuation risk.

• Debt-funded capex plan, however, ~45% of debt is constituted by unsecured loans from related parties

The company is undertaking an expansion plan of around Rs. 17.79 crore for further expansion in capacity to 21600 MTPA (existing capacity 18000 MTPA). The total project cost of Rs. 17.79 crore is being partly funded by term loan of Rs. 10.00 crore and unsecured loans from the directors of Rs. 7.79 crore which are brought from sale of non-core assets. The company will be installing new machineries (Cupola- A cupola furnace is a melting device used in foundries that can be used to melt cast iron, Ni-resist iron and some bronzes) which will be fully automated, resulting in reduced cost of production. NIFIL proposes to manufacture DI Iron Manhole cover & frame, grates for exports to USA, UK, Middle East and Europe. The commercial production from this project is expected to start by July 2019. Despite an expected improvement in the financial risk profile, any deterioration in accruals will be a key rating sensitivity factor.

Outlook: Stable

Acuite believes that NIFIL will maintain a 'Stable' outlook over the medium term from the industry experience of the promoter. The outlook may be revised to 'Positive' if there is substantial and sustained improvement in NIFIL's operating income or profitability, while maintaining its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of weakening of capital structure and debt protection metrics.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	66.97	53.61	61.60
EBITDA	Rs. Cr.	4.92	3.23	3.51
PAT	Rs. Cr.	2.00	1.06	1.35
EBITDA Margin	(%)	7.34	6.03	5.70
PAT Margin	(%)	2.99	1.98	2.19
ROCE	(%)	9.41	6.25	8.19
Total Debt/Tangible Net Worth	Times	0.78	0.87	0.76
PBDIT/Interest	Times	3.70	4.38	3.50
Total Debt/PBDIT	Times	4.00	6.28	4.57
Gross Current Assets (Days)	Days	209	197	172

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.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
08-Oct-2018	Bills Discounting*	Long Term	15.00	ACUITE BBB-/ Stable (Upgraded from BB+/Stable)
	Proposed Bank Facility	Short Term	3.00	ACUITE A3 (Assigned)
	Proposed	Long Term	0.52	ACUITE BBB-/ Stable (Assigned)
25-Jan-2018	Bills Discounting	Long Term	13.90	ACUITE BB+ / Stable (Reaffirmed)
	Proposed Bank Facility	Short Term	0.52	ACUITE A4+ (Reaffirmed)
14-Nov-2016	Packing Credit	Long Term	13.90	ACUITE BB+ / Stable (Assigned)
	Letter of Credit	Short Term	1.90	ACUITE A4+ (Assigned)
	Bank Guarantee	Short Term	0.50	ACUITE A4+ (Assigned)
	Proposed Short Term Loan	Short Term	0.52	ACUITE A4+ (Assigned)

* EPC/PCFC of Rs.15.00 crore sublimit of BD

* BG limit of Rs.0.50 crore sublimit of BD

* LC limit of Rs.2.00 crore sublimit of BD

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Bills Discounting*	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BBB-/ Stable (Reaffirmed)
Standby Line of Credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE BBB-/ Stable (Reaffirmed)
Proposed	Not Applicable	Not Applicable	Not Applicable	11.00	ACUITE BBB-/ Stable (Assigned)
Proposed	Not Applicable	Not Applicable	Not Applicable	0.52	ACUITE A3 (Reaffirmed)

* EPC/PCFC of Rs.15.00 crore sublimit of BD

* BG limit of Rs.0.50 crore sublimit of BD

* LC limit of Rs.2.00 crore sublimit of BD

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About Acuité Ratings & Research:

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