

Press Release

Rourkela Steel Corporation

May 22, 2017

Rating Assigned

Total Bank Facilities Rated*	Rs. 9.40 Cr.
Long Term Rating	SMERA BB / Outlook: Stable
Short Term Rating	SMERA A4+

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BB**' (read as **SMERA BB**) and short term rating of '**SMERA A4+**' (read as **SMERA A four plus**) on the Rs. 9.40 crore bank facilities of Rourkela Steel Corporation. The outlook is '**Stable**'.

RSC was established in the year 1974 and trades in iron and steel products. The company is part of Shree Samtainath group, with other major company being Shree Samtainath Enterprises Pvt Ltd. SSEPL was established in the year 1997 and trades in iron and steel products and also fabricates them. The group's operations are managed by Mr Kedar Kheria and his son Mr Mayur Kheria. SMERA has consolidated the financial and business risk profiles of Shree Samtainath Enterprises Private Limited and Rourkela Steel Corporation while arriving at the rating. This is because both the entities are in the same line of business, have common management and significant operational linkages.

Key Rating Drivers

Strengths

- **Experienced management and long track record of operations:**

The promoter of the company Mr Kedar Kheria has more than four decades of experience in the iron and steel industry. Currently the group's operations are managed by Mr Kedar Kheria and his son Mr Mayur Kheria.

- **Average financial risk profile:**

The average financial risk profile of the group is marked by its low gearing and moderate interest coverage ratio and comfortable debt protection measures. Debt equity stands at 0.27 times and interest coverage at 1.77 times in FY2016. Moreover, Net Cash Accruals to Total Debt (NCA/TD) is at 0.17 times in FY2016. Debt Service Coverage Ratio (DSCR) is at 1.66 times in FY2016. The networth is comfortable at Rs 33.82 crore in FY2016. SMERA has treated Rs 13 crore of unsecured loans as quasi equity based on an undertaking from the group that the amount is from promoters and would be maintained in the business over the medium term.

- **Efficient working capital management:**

The efficient working capital management is marked by low working capital cycle days of 75 days in FY2016. The inventory day is low at 34 in FY2016, while the debtor days are at 52 in FY2016.

Weaknesses

- **Thin profit margins:**

The company operates at thin profit margin due to trading nature of business. The net profit margin is at 0.69 per cent in FY2016 and 0.70 per cent in FY2015. This is due to high interest burden.

• **Susceptibility of margins to fluctuations in steel prices:**

Since the steel industry is the major end user of the group's products, the business is highly dependent on the performance of the steel industry and the price fluctuations. The profit margins and sales also remains exposed to the inherent cyclicalities in the steel industry.

• **Exposure to inherent cyclicalities in the construction industry and infrastructure sector:**

The company remains exposed to inherent cyclicalities in the construction industry and infrastructure sector.

Analytical Approach

SMERA has consolidated the financial and business risk profiles of Shree Samtains Enterprises Private Limited and Rourkela Steel Corporation while arriving at the rating. This is because both the entities are in the same line of business, have common management and significant operational linkage

Outlook: Stable

SMERA believes that the group will continue to benefit over the medium term from the promoters vast experience in the iron and steel industry. The outlook may be revised to 'Positive' if the group achieves more than envisaged sales and profitability while maintaining its financial risk profile. Conversely, the outlook may be revised to 'Negative' if the group fails to achieve growth in revenue and financial risk profile deteriorates owing to higher- than-expected increase in debt-funded working capital requirements.

About the Rated Entity - Key Financials

The group reported Profit After Tax (PAT) of Rs 1.09 crore as against operating income of Rs 158.70 crore in FY2015-16, While it reported PAT of Rs 1.21 crore as against operating income of Rs 173.08 crore in FY2014-15. The company on standalone basis reported Profit After Tax (PAT) of Rs 0.67 crore as against operating income of Rs 110.84 crore in FY2015-16, While it reported PAT of Rs 0.50 crore as against operating income of Rs 116.03 crore in FY2014-15. Till middle March 2017 (Provisional) they have registered revenue of Rs 111 crore.

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Trading Entities - <https://www.smera.in/criteria-trading.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Not Applicable

***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 Applicable	Not Applicable	5.00	SMERA BB / Stable
Bills Discounting	Not	Not	Not	2.50	SMERA A4+

	Applicable	Applicable	Applicable		
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	1.90	SMERA A4+

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ABOUT SMERA

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