

Press Release

Kathuria Rollmill Private Limited

May 24, 2017

Rating Assigned

Total Bank Facilities Rated*	Rs. 30.52 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. 30.52 crore bank facilities of Kathuria Rollmill Private Limited. The outlook is '**Stable**'.

KRPL was incorporated in 1999 by Mr. Naresh Kathuria, Mr. Umesh Kathuria and Mrs. Chanchal Kathuria. The company is engaged in the manufacturing of rolling mill machinery and execution of turnkey projects for the setting up of rolling mills. The manufacturing facility is located at Greater Noida, Uttar Pradesh.

Key Rating Drivers

Strengths

- **Experienced management and longstanding relationship with reputed clients**

KRPL was promoted by Mr. Naresh Kathuria, Mr. Umesh Kathuria, Mrs. Chanchal Kathuria and others. The promoters are second generation entrepreneurs with over three decades of experience in the rolling mill and capital goods industry. SMERA believes that KRPL will benefit substantially from its experienced management and longstanding relationship with reputed clients across the world. The company has its footprint in Bangladesh, Middle East, Pakistan, Nepal and several other countries. In FY2016, the company reported 47 per cent of its total operating income from exports and execution of projects outside India.

- **Conservative capital structure**

KRPL's credit risk profile benefits significantly from its low gearing which stood at 1.21 times as on 31 March, 2016 as compared to 0.73 times as on 31 March, 2015. The marginal increase in gearing is attributable to the rise in short term debt of the company from Rs. 7.86 cr as on 31 March, 2015 to Rs. 15.63 cr primarily on account of increase in its gross current assets by Rs. 11.07 cr in FY2016. The prudent gearing of the company coupled with its comfortable profitability margins resulted in healthy debt protection metrics. KRPL reported interest coverage ratio of 2.24 times in FY2016 against 2.13 times in FY2015 while its debt service coverage ratio (DSCR) also remained comfortable at 1.59 times in FY2016 (1.61 times in FY2015). Though SMERA expects some moderation in the DSCR in FY2017 on account of increased debt servicing obligations, the debt protection metrics are expected to remain comfortable over the near to medium term.

Weaknesses

- **Modest scale of operations**

KRPL primarily manufactures rolling mills used in the iron and steel industry and also undertakes turnkey projects. The operating cash flows are thus susceptible to the level of capital expenditure undertaken by the iron and steel industry players in India and overseas. KRPL reported a modest

operating income of Rs. 39.22 cr in FY2016 as against Rs. 34.28 cr in FY2015 primarily on account of muted demand arising out of the global slow down in the metals industries. SMERA expects the operating performance to continue to be susceptible to the offtake of various metal products across the world. Continued pressure on steel prices arising out of muted demand can result in deferral of capital expenditure plans by players in the iron and steel industry. Such events are expected to adversely affect the product offtake for players like KRPL.

• Working capital intensive operations

KRPL undertakes projects on a turnkey basis for clients. The company reported high inventory days of 245 in FY2016 (222 days in FY2015) on account of the presence of substantial unbilled work-in-progress. As a result, the Gross Current Asset (GCA) days of the company also remained high at 391 days in FY2016 as against 321 days in FY2015. The stretched working capital also continued to weigh down on the liquidity position of the company - resulting in a modest bank limit utilisation of ~84 per cent for the six months ended 31 December, 2016. SMERA believes that KRPL's ability to efficiently manage its working capital cycle shall be instrumental in improving its overall credit risk profile.

Analytical Approach

SMERA has taken a standalone view of the above entity.

Outlook: Stable

SMERA believes that KRPL will maintain a stable outlook over the medium term on account of its experienced management, conservative capital structure and long standing relationship with buyers and suppliers. The outlook shall be revised to 'Positive' in case of higher than expected growth in operating income while maintaining healthy profitability margins coupled with substantial improvement in the working capital cycle. The outlook shall be revised to 'Negative' in case of continued increase in gross current assets or in case of lower than expected revenue growth and/or deterioration in profitability margins.

About the Rated Entity - Key Financials

KRPL reported profit after tax (PAT) of Rs. 1.00 cr on operating income of Rs. 39.22 cr in FY2015-16 against PAT of Rs. 0.87 cr on operating income of Rs. 34.28 cr in FY2014-15.

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>
- Complexity Level Of Financial Instruments - <https://www.smera.in/criteria-complexity-levels.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.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	Coupon	Maturity	Size of the Issue	Ratings/Outlook
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	Issuance	Rate	Date	(Rs. Cr.)	
Term loans	Not Applicable	Not Applicable	Not Applicable	8.52	SMERA BB / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.00	SMERA BB / Stable
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	11.00	SMERA A4+
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	5.00	SMERA A4+

Contacts

Analytical	Rating Desk
Vinayak Nayak Head – Ratings Operations Tel: 022-67141190 vinayak.nayak@smera.in Arindam Som Analyst - Rating Operations Tel: 011-49731321 arindam.som@smera.in	Varsha Bist Sr. Executive Tel: 022-67141160 varsha.bist@smera.in

ABOUT SMERA

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