

Press Release

Rarewala Steels And Alloys Private Limited

June 01, 2017

Rating Assigned

Total Bank Facilities Rated*	Rs. 6.50 Cr.
Long Term Rating	SMERA B / Outlook: Stable
Short Term Rating	SMERA A4

** Refer Annexure for details*

Rating Rationale

SMERA has assigned long-term rating of '**SMERA B' (read as SMERA B)** and short term rating of '**SMERA A4' (read as SMERA A four)** on the Rs. 6.50 crore bank facilities of Rarewala Steels And Alloys Private Limited. The outlook is '**Stable**'.

Rarewala Steels and Alloys Private Limited (RSAAPL), part of the Rarewala Group is engaged in the fabrication of bright bars, ground bars and peeled bars and caters to the automobile and precision engineering industries. The manufacturing facility is located at Dabaspet, Bangalore and has an installed capacity of about 10,000 tons per annum.

Key Rating Drivers

Strengths

- **Experienced management**

Incorporated in 2010, RSAAPL has been catering mainly to the automobile industry through Rarewala Engineering Works since 1989. The management is led by Mr. Pramod Murarka, Ms Renu Murarka and others.

- **Reputed clientele**

RSAAPL caters to Honda, TVS, Ashok Leyland to name a few. The company procures major raw materials like coils and bars from JSW Steels, Usha Martin, Adhunik Group and Vizag Steel.

Weaknesses

- **Modest scale of operations**

The modest scale of operations is marked by operating income of Rs.15.39 crore in FY2016 as compared to Rs.5.71 crore in FY2015. However, the same is expected to be around Rs.24 crore (gross) and Rs.22.50 crore (net) in FY2017.

- **Weak financial risk profile**

The weak financial risk profile is marked by modest debt protection metrics, high gearing and low net worth. The interest coverage and debt service coverage ratios stood at 1.52 times in FY2016 as compared to 1.64 in FY2015. The gearing is high marked by 129.67 times and -164.72 times in FY2016 and FY2015 respectively. The debt mainly comprises unsecured loans from related parties and cash credit facility of Rs 3.59 crore from the bank. The net worth base is low at Rs.0.03 crore as on 31 March, 2016.

- **Thin margins**

The EBITDA and PAT margins stood at 2.83 percent and 0.40 percent respectively in FY2016 compared to 2.44 percent and 0.27 percent respectively in FY2015.

Analytical Approach

SMERA has taken a standalone view of the business and financial risk profiles of the entity.

Outlook: Stable

SMERA believes that RSAAPL will maintain a stable outlook in the medium term while benefitting from its experienced management and reputed clientele. The outlook may be revised to 'Positive' if the company scales up operations while improving its margins. Conversely, the outlook may be revised to 'Negative' in case of lower-than-expected growth in revenues or if the working capital cycle deteriorates.

About the Rated Entity - Key Financials

For FY2016, RSAAPL reported profit after tax (PAT) of Rs.0.06 crore on total operating income of Rs.15.39 crore, as compared with PAT of Rs.0.02 crore on total operating income of Rs.5.71 crore in FY2015. The tangible net worth stood at Rs.0.03 crore in FY2016.

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>
- 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>

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	6.00	SMERA B / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	0.50	SMERA A4

Contacts

Analytical	Rating Desk
Vinayak Nayak Head – Ratings Operations Tel: 022-67141190 vinayak.nayak@smera.in Nikhil Tantia Analyst - Rating Operations Tel: 033-66201206	Varsha Bist Sr. Executive Tel: 022-67141160 varsha.bist@smera.in

nikhil.tantia@smera.in	
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ABOUT SMERA

SMERA Ratings Limited is a joint initiative of SIDBI, D&B and leading public and private sector banks in India. SMERA is registered with SEBI, accredited by RBI as an External Credit Assessment Institution (ECAI), under BASEL-II norms for undertaking Bank Loan Ratings. SMERA Bond Ratings is a division of SMERA Ratings Limited responsible for ratings of bank facilities, and capital market/money market debt instruments such as Bonds, Debentures, Commercial Papers, Fixed Deposits, Certificate of Deposits etc.. For more details, please visit www.smera.in.

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