

## Press Release

### Rashmi Ispat Limited

23 October, 2017

### Rating Assigned



<b>Total Bank Facilities Rated*</b>	Rs. 82.00 Cr.
<b>Long Term Rating</b>	SMERA BBB- / Outlook: Stable
<b>Short Term Rating</b>	SMERA A3

\* Refer Annexure for details

### Rating Rationale

SMERA has assigned long-term rating of '**SMERA BBB-**' (read as **SMERA triple B minus**) and short term rating of '**SMERA A3**' (read as **SMERA A three**) on the Rs. 82.00 crore bank facilities of Rashmi Ispat Limited (RIL). The outlook is '**Stable**'.

Incorporated in 1992 as Rashmi Ispat Private Limited, the company was converted to Rashmi Ispat Limited (RIL) on 17th January, 2007. RIL is engaged in the manufacturing of sponge iron at Jhargram, West Bengal and has installed capacity of 90,000 TPA.

### Key Rating Drivers

#### Strengths

##### **Experienced management and long track record of operations**

Incorporated in 1992, RIL has a long track record of 25 years in the iron and steel industry. Currently the business is managed by the second generation of Mr Patwari and family. The company is led by Mr A K Patwari (Chairman & Managing Director) who has experience of nearly two decades in the said line of business.

##### **Healthy scale of operations**

The scale of operations is healthy marked by revenue of Rs 133.59 crore in FY2017 as against Rs 122.89 crore in FY2016. The increase in scale of operations in FY2017 is due to higher utilisation of capacity of 92.68 per cent in FY2017 as against 59.27 per cent in FY2016. Also, till August '17, RIL clocked revenue of Rs 49.95 crore from sale of sponge iron with capacity utilisation of 84 per cent. SMERA believes that with commencement of production of the fourth kiln (sponge iron with installed capacity of 100 MT per day), the scale of operations will increase further in the medium term.

##### **Above average financial risk profile**

The financial risk profile is comfortable marked by healthy net worth, low gearing and strong debt protection metrics. The net worth stood at Rs 90.31 crore as on 31 March, 2017 as against Rs 78.05 crore in FY2016. To arrive at the net worth, SMERA has considered unsecured loans from promoters and relatives of Rs15.34 crore as quasi equity based on the undertaking that the same would be maintained over the business in the medium term. The gearing has been low at 0.02 times in FY2017 as against 0.01 times in FY2016. The gearing levels of the company have been at conservative levels as the promoters have managed majority of the working capital requirements from their own sources and refrained from taking external debt. The debt protection metrics stood comfortable with interest coverage ratio of 2.75 times in FY2017 as against 5.08 times in FY2016. The net cash accruals to total debt (NCA/TD) stood at 0.88 times in FY2017.

Going forward, SMERA believes that there will be partial moderation in the financial risk profile due to the

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large capital expenditure undertaken by the company.

## Weaknesses

### Low profitability

The operating margins are low at 1.16 per cent in FY2017 as against 0.28 per cent in FY2016. The low margins are primarily on account of high raw material cost. The PAT margins stood at 0.19 per cent in FY2017 as against 0.37 per cent in FY2016. Going forward, the margins are expected to improve as the company has undertaken a capex for 12 MW captive power plant and billet plant of 69,120 MT per annum. This is expected to increase the turnover of the company and reduce cost of production by way of reduced power cost (in house generation of power).

### Debt funded capex plan

The company is in the process of undertaking capex for 12 MW captive power plant and induction furnaces of 69,120 MT capacity to produce MS billets. In the current financial year, RIL has already added the fourth kiln of 100 TPD capacity. However, the commercial production has not yet started. The total cost of the project is Rs.108 crore of which Rs.51 crore is financed through own contribution and the balance through a bank loan of Rs.57.00.

Around 45 per cent of the project is completed with Rs 49 crore expended till August'17 which has been entirely from promoters own resources. For the balance, the company has applied for a term loan which is yet to be sanctioned. The management is expecting to complete the project by FY2017-18. SMERA believes that the increase in debt is likely to deteriorate the gearing and debt protection metrics from the current levels over the medium term. The financial indicators would still be at comfortable levels post completion of the ongoing capex. Besides, timely completion of the project will remain a key rating sensitivity.

### Intense competition from other players

The company operates in a highly fragmented industry with intense competition from organised and unorganised players.

## Analytical Approach

For arriving at the rating, SMERA has considered the standalone business and financial risk profiles of RIL.

### Outlook: Stable

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

## About the Rated Entity - Key Financials

For FY2016-17- the company reported Profit after tax (PAT) of Rs 0.10 crore on operating income of Rs 33.11 crore compared to PAT of Rs (0.29) crore on operating income of Rs 20.71 crore in FY2015-16.

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

None

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## 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. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	SMERA BBB-/Stable (Assigned)
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	18.00	SMERA BBB-/Stable (Assigned)
Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	57.00	SMERA BBB-/Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	2.00	SMERA A3 (Assigned)

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## ABOUT SMERA

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