

Press Release

Rashmi Ispat Limited

December 03, 2018



Rating Reaffirmed and Assigned

Total Bank Facilities Rated*	Rs. 86.00 Cr. (Enhanced from Rs 82.00 Crore)
Long Term Rating	ACUITE BBB-/Outlook: Stable (Reaffirmed and Assigned)
Short Term Rating	ACUITE A3 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed long term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) and short-term rating of '**ACUITE A3**' (**read as ACUITE A three**) to the Rs. 86.00 crore bank facilities of Rashmi Ispat Limited (RIL). The outlook is '**Stable**'.

Incorporated in 1992, the West Bengal based Rashmi Ispat Private Limited is promoted by Mr. Raj Kumar Patwari, Mr. Anil Kumar Patwari and Mr. Sontosh Devi Patwari. The company's constitution was subsequently converted to Rashmi Ispat Limited (RIL) in January, 2007. RIL is engaged in manufacturing of sponge iron at Jhargarm (West Bengal) with an installed capacity of 1, 20,000 MTPA. The company has further installed a 12 MW captive power plant partially operational since September, 2018.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of RIL to arrive at the rating.

Key Rating Drivers

Strengths

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

Incorporated in 1992 as a private limited company and later converted into public limited company in 2007, RIL has a long track record of 25 years in the iron and steel industry. The current management comprising of Mr. A K Patwari (Chairman & Managing Director) who has experience of nearly two decades in the steel industry resulting in longstanding relationship with their customers and suppliers.

- **Healthy financial risk profile**

The healthy financial risk profile of the company is marked by its healthy net worth, low gearing, and healthy debt protection metrics. The net worth stood at Rs.90.93 crore as on 31 March, 2018 as compared to Rs.90.31 crore as on 31 March, 2017. To arrive at the net worth, Acuité has considered unsecured loans from promoters and relatives of Rs.14.50 crore as quasi equity based on the undertaking from the management that the same would be kept in the business over the medium term. The debt to equity ratio of the company remained low at 0.19 times in FY2018 as against 0.02 times in FY2017. The total debt of Rs.17.20 crore consists of Rs.11.55 crore of unsecured loans from promoters and body corporates and Rs.5.64 crore of short term borrowing.

RIL has incurred capital expenditure of Rs.65.89 crore towards setting up of 12 MW power plant funded via internal accruals of Rs.53.89 crore and unsecured loan of Rs.12.00 Crore to be completed in the current financial year. The debt protection metrics stood comfortable with interest coverage ratio (ICR) of 3.10 times in FY2018 as against 3.09 times in FY2017. Going forward, Acuité believes that any debt funded capital expenditure will result in partial moderation in the financial risk profile and hence remain a key credit monitorable.

- **Improvement in scale of operations**

RIL registered year on year growth of 24.60 percent in operating revenue in FY2018 as compared to the preceding year on account of increased production capacity from 90,000 MTPA to 1,20,000 MTPA in their sponge iron unit coupled with better sales realisations.

The operating revenue stood at Rs.166.40 crore for FY2018 as against Rs.133.55 crore for FY2017. The company has further registered operating revenue of Rs.115.00 crore for the period April – September 2018 (Provisional).

Weaknesses

- **Inherent cyclical in steel industry and intense competition**

RIL's operations are exposed to inherent cyclical in steel industry with demand for steel products predominantly depending on the construction and infrastructure sectors. Any slowdown in the end-user industries may adversely affect demand for and price of steel products over the medium term. Further, the company faces intense competition due to the presence of a large number of organised and unorganised players on account of low entry barriers and limited differentiation in the end products. As a result, RIL's business risk profile is exposed volatility in price and demand prospect of the steel industry.

- **Exposure to project implementation risk**

RIL proposes to set up two induction furnaces of 12 MT capacities each for production of MS billets. The total cost of the project is expected to be Rs.51.58 crore to be financed primarily through bank loans. Notwithstanding the benefits of capacity addition, the project is likely to put pressure on the liquidity position of the company due to the high quantum of debt to be contracted for the project. The timing of the project is still in the drawing board stage as the company is yet to tie up for the financing of the project of Rs.51.58 crore. The ability of the company to achieve financial closure and ensure timely execution of the project will be a key rating sensitivity factor.

- **Moderate profitability**

RIL's profitability remained moderate with EBITDA margins of 3.49 percent in FY2018 as against 1.59 percent in FY2017. The improvement was on account of improved realisations. The PAT margins also registered marginal improvement from 0.53 percent in FY2017 to 0.63 percent in FY2018 on account of significant increase in interest payment obligations. Acuité expects that in the absence of further debt led capex, RIL's profitability will improve in medium term owing to installation of captive power plant which is expected to support its energy requirement.

Outlook: Stable

Acuité believes that RIL will maintain a 'Stable' outlook over the medium term owing to the promoters' vast experience and comfortable financial risk profile. 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 capital expenditure and/or working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY18(Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	166.40	133.55	102.61
EBITDA	Rs. Cr.	5.76	2.12	0.28
PAT	Rs. Cr.	1.04	0.71	0.38
EBITDA Margin	(%)	3.46	1.59	0.28
PAT Margin	(%)	0.63	0.53	0.37
ROCE	(%)	5.07	2.20	1.23
Total Debt/Tangible Net Worth	Times	0.19	0.02	0.01
PBDIT/Interest	Times	3.10	3.09	5.08
Total Debt/PBDIT	Times	2.51	0.48	0.47
Gross Current Assets (Days)	Days	111	143	176

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

None

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
23-Oct-2017	Cash Credit	Long Term	5.00	ACUITE BBB-/Stable (Assigned)
	Proposed Cash Credit	Long Term	18.00	ACUITE BBB-/Stable (Assigned)
	Proposed Long Term Loan	Long Term	57.00	ACUITE BBB-/Stable (Assigned)
	Letter of Credit	Short Term	2.00	ACUITE A3 (Assigned)

*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	ACUITE BBB-/Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	5.38	ACUITE BBB-/Stable (Assigned)
Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	53.62	ACUITE BBB-/Stable (Reaffirmed)
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00 (Enhanced from Rs 18.00 crore)	ACUITE BBB-/Stable (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A3 (Reaffirmed)

Contacts

Analytical	Rating Desk
<p>Pooja Ghosh Head-Corporate and Infrastructure Sector Rating's Tel: 033-6620-1203 pooja.ghosh@acuite.in</p> <p>Swati Banthia Analyst - Rating Operations Tel: 033-6620-1211 swati.banthia@acuiteratings.in</p>	<p>Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in</p>

About Acuité Ratings & Research:

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