

Press Release

Rashmi Ispat Limited

September 20, 2019

Rating Upgraded and Withdrawn



| | |
|-------------------------------------|--|
| Total Bank Facilities Rated* | Rs. 27.38 Cr. |
| Long Term Rating | ACUITE BBB /Stable (Upgraded from ACUITE BBB-/Stable) |
| Short Term Rating | ACUITE A3+ (Upgraded from ACUITE A3) |

* Refer Annexure for details

Rating Rationale

Acuité has upgraded the long-term rating to '**ACUITE BBB**' (read as **ACUITE triple B**) from '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and the short-term rating to '**ACUITE A3+**' (read as **ACUITE A three plus**) from '**ACUITE A3**' (read as **ACUITE A three**) on the Rs. 27.38 crore bank facilities of Rashmi Ispat Limited (RIL). Acuité has also withdrawn long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) on the Rs 58.62 crore bank facility of RIL. The outlook is '**Stable**'.

The upgrade in rating is on account of consistent improvement in top-line and profitability coupled with rise in net cash accruals during the last 2 years. Acuité also factors in the commencement of its captive power, thereby resulting in incremental savings in power cost going forward. Further, RIL has entered into a 25 year Power Purchase agreement with West Bengal Sate Electricity Company Limited (Rate ACUITE A-/Stable/A2+), thereby ensuring fixed revenue stream from the power plant. The upgrade in rating derives comfort from comfortable financial risk profile and lower reliance on external borrowings.

The withdrawal is on account of client's request and receipt of NOC from the banker. The withdrawal is in accordance with Acuité's policy on withdrawal.

Incorporated in 1992, West Bengal-based Rashmi Ispat Private Limited is promoted by Mr. Anil Kumar Patwari. The company's constitution was subsequently converted into a public limited company as Rashmi Ispat Limited in January, 2007. RIL is engaged in the manufacturing of sponge iron at Jhargram, West Bengal with an installed capacity of 1,20,000 MTPA. The company has further installed a 12 MW captive power plant of which 4 MW is in operation since September'2018.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of Rashmi Ispat Limited. To arrive at the ratings, Acuité has considered the unsecured loan of Rs 37.20 crore as debt in the absence of subordination clause in the sanction letter and undertaking from management to maintain the same in the book in the medium term.

Key Rating Drivers

Strengths

• Long track record of operations and experienced promoters

Incorporated in 1992 as private limited company, and later converted into public limited company in 2007, RIL has a track record of over 25 years in the iron and steel industry. In June 2019, the founder promoter, Mr. Anil Kumar Patwari, expired who was suffering from liver disorder since last 3-4 years. During this tenure, the business was managed by his wife, Mrs. Rashmi Devi Patwari, who has nearly a decade of experience in the same line of business. Currently the business is being managed by Mrs. Rashmi Devi Patwari along with a set of experienced professionals.

• Improvement in topline and profitability

RIL has registered a topline of Rs 230.08 crore in FY2019 as against Rs 166.40 crore in FY2018, thereby registering a y-o-y growth of 38.26 per cent. The rise in revenue is on account of increase in the installed capacity from 90000 MTPA to 120000 MTPA coupled with over improvement in the utilisation of the capacity installed. Further, the rise in revenue is due to improvement in the average realisation per metric ton in FY2019. The profitability metrics also improved with operating margins of 5.03 per cent in FY2019 as

compare to 3.46 per cent a year earlier. Acuite believes that the improvement in profitability metrics owes to rise in realization and savings in power cost. RIL has entered into a 25 year Power Purchase agreement with West Bengal Sate Electricity Company Limited (Rate ACUITE A-/Stable/A2+), thereby ensuring fixed revenue stream from the power plant. Acuite expects that the fixed source of revenue from captive power plant will enable RIL to maintain a stable operating margin.

• **Healthy financial risk profile**

The healthy financial risk profile of RIL is marked by healthy net worth, low gearing and healthy debt protection metrics. The net worth of the company stood at Rs.79.43 crore as on 31 March, 2019 as against Rs.76.43 crore in the previous year. To arrive at the ratings, Acuite has considered the unsecured loan of Rs 37.20 crore as debt on the absence of subordination clause in the sanction letter any undertaking from management to maintain the same in the book in the medium term. The gearing stood comfortable at 0.47 times as on 31 March, 2019 as against 0.41 times in the previous year. Total debt of Rs.37.20 crore as on 31 March, 2019 consist of Rs.4.29 crore of long term borrowings, unsecured loan of Rs.32.60 crore and Rs 0.30 crore of CPLTD. The debt protection metrics is comfortable marked by interest coverage ratio (ICR) of 3.22 times in FY2019 and debt service coverage ratio of 2.73 times as on March 31, 2019. Acuite believes that the financial risk profile of the company is likely to remain comfortable over the medium term.

Weaknesses

• **Inherent cyclicity in steel industry and intense competition**

RIL's operations are exposed to inherent cyclicity in the steel industry with demand for steel products predominantly depending upon the construction and infrastructure sectors. Any slow-down 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 large number of players on account of low entry barriers and limited differentiation in end products. As a result, RIL's business risk profile is exposed to volatility in price and demand prospect in steel industry.

Liquidity Profile

The RIL's liquidity profile is adequate marked by net cash accruals of Rs. 7.10 crore in FY19 as against its maturing debt obligations of Rs.0.30 crore over the same period. The operations are moderately working capital intensive marked by gross current asset (GCA) days of 73 in FY 2019. The current ratio of the company stood modest at 2.07 times as on March 31, 2019. The company maintains unencumbered cash and bank balances of Rs. 1.25 crore as on March 31, 2019. Further, lower reliance on external borrowings provides liquidity cushion to RIL.

Outlook: Stable

Acuite believes that RIL will continue to benefit over the medium term from the management experience and its long track record. The outlook may be revised to 'Positive' if RIL achieves more than envisaged sales and profitability, and improve its working capital intensity. Conversely, the outlook may be revised to 'Negative' if the company fails to achieve growth in revenue or deterioration in financial risk profile in case of higher than expected working capital requirement.

About the Rated Entity - Key Financials

| | Unit | FY19 (Actual) | FY18 (Actual) | FY17 (Actual) |
|-------------------------------|---------|---------------|---------------|---------------|
| Operating Income | Rs. Cr. | 230.08 | 166.40 | 133.55 |
| EBITDA | Rs. Cr. | 11.57 | 5.76 | 2.12 |
| PAT | Rs. Cr. | 3.01 | 1.04 | 0.71 |
| EBITDA Margin | (%) | 5.03 | 3.46 | 1.59 |
| PAT Margin | (%) | 1.31 | 0.63 | 0.53 |
| ROCE | (%) | 6.74 | 5.07 | 2.20 |
| Total Debt/Tangible Net Worth | Times | 0.47 | 0.41 | 0.22 |
| PBDIT/Interest | Times | 3.22 | 3.10 | 3.09 |
| Total Debt/PBDIT | Times | 3.16 | 4.63 | 5.74 |
| Gross Current Assets (Days) | Days | 73 | 111 | 143 |

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Default Recognition- <https://www.acuite.in/view-rating-criteria-17.htm>
- Manufacturing Entities- <https://www.acuite.in/view-rating-criteria-4.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 |
|-------------|---------------------------------|------------|------------------|------------------------------------|
| 03-Dec-2018 | Cash Credit | Long Term | 5.00 | ACUITE BBB- / Stable (Re-affirmed) |
| | Proposed Cash Credit | Long Term | 20.00 | ACUITE BBB- / Stable (Re-affirmed) |
| | Term Loan | Long Term | 5.38 | ACUITE BBB- / Stable (Assigned) |
| | Proposed Term Loan | Long Term | 53.62 | ACUITE BBB- / Stable (Re-affirmed) |
| | Letter of Credit | Short Term | 2.00 | ACUITE A3 (Re-affirmed) |
| 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 (Withdrawn) |
| Term Loan | Not Applicable | Not Applicable | Not Applicable | 5.38 | ACUITE BBB/Stable (Upgraded from ACUITE BBB-/Stable) |
| Proposed Term Loan | Not Applicable | Not Applicable | Not Applicable | 53.62 | ACUITE BBB/Stable (Withdrawn) |
| Proposed Cash Credit | Not Applicable | Not Applicable | Not Applicable | 20.00 | ACUITE BBB/Stable (Upgraded from ACUITE BBB-/Stable) |
| Letter of Credit | Not Applicable | Not Applicable | Not Applicable | 2.00 | ACUITE A3+ (Upgraded from A3) |

Contacts:

| Analytical | Rating Desk |
|---|---|
| <p>Pooja Ghosh Head– Corporate and Infrastructure Sector Ratings Tel: 033-66201203 pooja.ghosh@acuite.in</p> <p>Aniruddha Dhar Rating Analyst Tel: 033-66201209 aniruddha.dhar@acuite.in</p> | <p>Varsha Bist Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in</p> |

About Acuité Ratings & Research:

Acuité Ratings & Research Limited (*Erstwhile SMERA Ratings Limited*) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.