

## Press Release

### SHREE PADMANABH ISPAT PRIVATE LIMITED (SPIPL)

12 January, 2018

#### Rating Assigned



<b>Total Bank Facilities Rated*</b>	Rs. 6.00 Cr.
<b>Long Term Rating</b>	SMERA B+/ Stable

\* Refer Annexure for details

#### Rating Rationale

SMERA has assigned long term rating of '**SMERA B+**' (read as **SMERA B plus**) on the Rs. 6.00 crore bank facilities of Shree Padmanabh Ispat Private Limited. The outlook is '**Stable**'.

The Karnataka-based Shree Padmanabh Ispat Private Limited (SPIPL) incorporated in 2006 is engaged in the trading of sponge iron, coal and its by-products. The company also provides engineering consultancy services apart from undertaking operation and maintenance of sponge iron plants.

#### Key rating drivers

##### **Strengths**

##### Experienced management

SPIPL was incorporated in 2006 by Mr. P.V. Srinivasa Rao, Consulting engineer with over two decades of experience in setting up of steel plants.

##### Moderate financial risk profile

The financial risk profile of the company is marked by low gearing, moderate interest coverage ratio and comfortable debt protection measures. The tangible networth stood low at Rs 2.24 crore in FY2017 (SMERA has treated Rs 0.85 crore as quasi equity based on an undertaking from the company that the amount will be maintained in the business over the medium term), adjusted gearing at 0.86 times and Interest Coverage (ICR) at 1.43 times. Moreover, the Net Cash Accruals to Total Debt (NCA/TD) stood at 0.06 times in FY2017. The company also benefits from the absence of long term debt obligations.

##### **Weakness**

##### Modest scale of operations

The scale of operations is modest with operating income of Rs. 9.17 crore for FY2017 as against Rs. 15.17 crore in FY2016. The fall in revenue is attributed to demonetisation during November and December 2016. Further three major customers of the company discontinued their operations. However, SPIPL has added around 20 new customers in the current year (FY2018).

### **Working capital intensive operations**

The operations are working capital intensive marked by high Gross Current Asset (GCA) of 134 days in FY2017 compared to 123 days in FY2016. The GCA days are mainly dominated by high debtor days of 118 days in FY2017. The average cash credit utilisation for the past six months stood at ~92 percent. SMERA believes that efficient working capital management will be crucial for the company in order to maintain a stable credit profile.

### **Competitive and fragmented industry**

SPIPL operates in a highly competitive and fragmented industry characterised by a large number of organised and unorganised players thereby affecting margins. The net profit margin stood at 0.71 per cent in FY2017 as against 1.00 percent in FY2016.

### **Analytical approach:**

SMERA has considered the standalone business and financial risk profiles of SPIPL to arrive at the rating.

### **Outlook – Stable**

SMERA believes that SPIPL will maintain a Stable outlook and benefit over the medium term from its experienced management. The outlook may be revised to 'Positive' if the company generates substantial and sustainable revenue or operating margins. Conversely, the outlook may be revised to 'Negative' in case of significant decline in revenue and profitability margins, stretched working capital cycle, or if the company takes on large debt-funded capital expenditure resulting in deterioration of the financial risk profile.

### **About the Rated Entity – Key Financials**

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	9.17	15.17	1.67
EBITDA	Rs. Cr.	0.44	0.31	0.22
PAT	Rs. Cr.	0.06	0.15	0.14
EBITDA Margin	(%)	4.81	2.01	13.12
PAT Margin	(%)	0.71	1.00	8.08
ROCE	(%)	10.37	11.43	29.66
Total Debt/Tangible Net Worth	Times	1.10	3.20	0.43
PBDIT/Interest	Times	1.43	3.49	16.10
Total Debt/PBDIT	Times	0.40	2.89	13.37
Gross Current Assets (Days)	Days	134	123	135

### **Any other information:**

Not Applicable

### Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>
- Trading Entities - <https://www.smera.in/criteria-trading.htm>
- Service Entities - <https://www.smera.in/criteria-services.htm>

### Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

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

None

### 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	6.00	SMERA B+ / Stable

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### ABOUT SMERA

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