

Press Release

RAIGARH ISPAT AND POWER LIMITED

February 26, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 18.50 Cr.
Long Term Rating	SMERA BBB- / Outlook: Stable
Short Term Rating	SMERA A3

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BBB-**' (read as **SMERA BBB minus**) and short term rating of '**SMERA A3**' (read as **SMERA A three**) on the Rs. 18.50 crore bank facilities of RAIGARH ISPAT AND POWER LIMITED. The outlook is '**Stable**'.

Established in 2004, RIPPL is engaged in the manufacturing of sponge iron. The company is promoted by Mr. Kamal Kishor Agrawal, Sushil Kumar Agrawal & Shrawan Kumar Agrawal. It has its manufacturing unit located at Raigarh, Chattisgarh. RIPPL is currently undertaking an expansion project.

Key Rating Drivers

Strengths

• Experienced Management

RIPPL is a family run business and managed by Kamal Agrawal, Sushil Agrawal & Shrawan Agrawal. Mr. Kamal Agarwal is MBA in finance. He is the main promoter and has more than 8 years of experience in the business of sponge iron. The directors oversee the day to day operations.

• Moderate Financial risk Profile

RIPPL's financial risk profile is moderate marked by net worth of Rs.43.83 crore as on 31 March, 2017. The gearing (Debt-Equity) stood at 0.40 times as on 31 March, 2017. Total debt mainly comprised of working capital funding of Rs.17.72 Crore. The interest coverage is stands at 2.09 times in FY17. Net Cash Accruals to Total debt (NCA/TD) stood at 0.11 times for FY17. Total outside liabilities to Tangible Network (TOL/TNW) stood at 0.59 times for FY17.

• Availability of key inputs

The unit is located in Jindal Industrial Park, Chattisgarh, where, it is assisted by consistent supply of power at subsidized rates. Also, the unit is well connected with roads and near to the sources of raw materials. i.e. iron ore, coal and dolomite; are easily available within a radius of 50 to 250 kms. The location is well connected by road to most of the important cities like Bhopal, Indore, New Delhi, Calcutta etc. which reflects that the company has good transportation facilities. Also, there is a continuous requirement of water for cooling purpose of rotary kiln for which the company has good resources of ground water through submersible pump to meet its requirements. Also, skilled and semiskilled workers are easily available in and around the location since a large number of units are already located in the region.

• Favorable government initiatives

Government of India's focus on infrastructure and restarting road projects is aiding the boost in demand for steel. Further, SMERA believes that since sponge iron is the raw material required for steel, RIPPL's operation shall benefit from favorable government policies.

Weaknesses

• Intense competition and cyclicity in the steel industry

RIPPL is exposed to intense competition from large number of organized and unorganized players along with its exposure to inherent cyclical nature of the steel industry. Also, prices of major raw material like iron ore, pellet, dolomite, coal etc. which are required for manufacturing of sponge iron are volatile in nature which would impact the profitability.

• **Stretched working capital management**

RIPPL's stretched working capital management is marked by high GCA days of 263 in FY17 and 298 in FY16. Its inventory days stood at 176 and 284 in FY17 and FY16 respectively. While its debtors are well managed at 41 days and 19 days in FY2017 and FY2016 respectively.

• **Exposure to geographic concentration**

RIPPL caters 100 per cent to the domestic market. The customers are primarily located in Raigarh which poses a threat with respect to the geographic concentration.

Analytical Approach

SMERA has considered the standalone financials of RIPPL

Outlook: Stable

SMERA believes that RIPPL will continue to maintain its 'Stable' business risk profile on the account of experienced management. The outlook may be revised to Positive if the company is able to achieve higher than expected revenues and accruals, while maintaining its financial risk profile. Conversely, the outlook may be revised to Negative in case the company fails to achieve its envisaged sales and profitability or in case of deterioration in its financial profile, or undertaking any significant debt funded capex.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	59.41	53.02	54.23
EBITDA	Rs. Cr.	4.79	4.23	3.32
PAT	Rs. Cr.	0.97	0.88	0.74
EBITDA Margin	(%)	8.06	7.98	6.11
PAT Margin	(%)	1.63	1.66	1.37
ROCE	(%)	6.06	5.37	8.37
Total Debt/Tangible Net Worth	Times	0.40	0.41	0.36
PBDIT/Interest	Times	2.09	2.18	2.53
Total Debt/PBDIT	Times	3.64	4.14	4.30
Gross Current Assets (Days)	Days	263	298	263

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	17.50	SMERA BBB- / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	1.00	SMERA A3

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ABOUT SMERA

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