

Press Release

Raigarh Ispat And Power Limited

February 20, 2019



Rating Upgraded and Assigned

Total Bank Facilities Rated*	Rs.33.50 Cr. (Enhanced from Rs.18.50 Cr.)
Long Term Rating	ACUITE BBB / Outlook: Stable (Upgraded & Assigned)
Long Term Rating	ACUITE A3+ (Upgraded)

* 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 short-term rating to '**ACUITE A3+**' (**read as ACUITE A three plus**) from '**ACUITE A3**' (**read as ACUITE A three**) to the Rs.24.50 crore bank facilities and assigned the long-term rating of '**ACUITE BBB**' (**read as ACUITE triple B**) to Rs.9.00 crore bank facilities of Raigarh Ispat And Power Limited (RIPPL). The outlook is '**Stable**'.

The rating revision is in view of significant improvement in revenue and profitability margins. The rating also draws comfort from the company's healthy financial risk profile, improved debt protection metrics and working capital cycle. Acuité believes that the RIPPL will sustain its existing business profile in near to medium term.

Raigarh-based, RIPPL was incorporated in 2004 by Mr. Kamal Kishor Agrawal, Mr. Sushil Kumar Agrawal and Mr. Shrawan Kumar Agrawal. The company is engaged in the manufacturing of sponge iron. Its manufacturing unit located at Raigarh (Chattisgarh) with installed capacity of 1,20,000 MTPA.

Analytical Approach

Acuité has taken a standalone view of the financial and business risk profile of RIPPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management**

The promoters, Mr. Kamal Agrawal and Mr. Sushil Agrawal have more than a decade of experience in the steel industry. Their experience has helped the company to establish long term relations with customers and suppliers and the same is reflected in steady growth in the scale of operations.

Acuité believes that RIPPL will continue to benefit from its promoter's extensive experience in the over the medium term.

- **Healthy financial risk profile and debt coverage levels**

RIPPL's financial risk profile is healthy marked by net worth of Rs.47.38 crore as on 31 March, 2018 as against Rs.43.83 crore as on 31 March, 2017. The gearing (debt-equity) stood comfortable at 0.38 times as on 31 March, 2018 and 0.40 times as on 31 March, 2017. The total debt of Rs.18.08 crore as on 31 March, 2018 consists of short term working capital limit of Rs.17.63 crore and term loan of Rs.0.45 crore. The interest coverage ratio (ICR) is comfortable at 3.58 times for FY2018 as against 2.09 times for FY2017. Net Cash Accruals to Total Debt (NCA/TD) stood at 0.23 times for FY2018. Total outside Liabilities to Tangible Net Worth (TOL/TNW) stood at 0.61 times for FY2018.

Acuité believes that the company to maintain its financial risk profile in the near to medium term in absence of major debt funded capex plans.

- **Improved working capital cycle**

The operation of RIPPL has improved significantly marked by Gross Current Assets (GCA) of 133 days in FY2018, an improvement from 263 days in FY2017. The improvement was majorly due to reduction in inventory days to 69 days in FY2018 from 176 days in FY2017 and increase in production capacity to 90000 MTPA at the same time. Further, debtor days were around 40 days in both FY2017 and FY2018 whereas, creditor days have reduced to 13 days in FY2018 from 19 days in FY2017. The average utilisation stood at 87 percent for past six months ended December, 2018.

- **Healthy increase in scale of operations and profitability margins**

The revenue of RIPPL grew at a compound annual growth rate of over 34 percent in the last three years through 2018 at Rs.94.57 crore in FY2018 (PY: Rs.59.41 crore). Net profit margins improved to 3.36 percent in FY2018 from 1.63 percent in FY2017. Further, RIPPL has registered turnover of Rs.145.34 crore for the period April, 2018 to December, 2018 (Provisional).

Acuité believes that the margins are expected to be at similar levels over the medium term with revenues on the account of capacity addition.

Weaknesses

- **Intense competition and inherent cyclical nature of steel industry**

RIPPL is exposed to intense competition in steel sector due to the presence of a large number of unorganised players on account of low entry barriers with little technology intensity and limited differentiation in end products. Demand for steel products predominantly depends on the construction and infrastructure sectors. Thus, RIPPL's business risk profile is exposed to the inherent cyclical nature in these sectors.

Liquidity Position

RIPPL has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.1.85-4.20 crore during the last three years through 2017-18, while its maturing debt obligations were in the range of Rs.0.02-0.19 crore over the same period. The cash accruals of the company are estimated to remain around Rs.7.50-11.12 crore during 2019-21, while its repayment obligation are estimated to be around Rs.0.38-1.50 crore. The working capital operations of RIPPL have improved marked by gross current asset (GCA) days of 133 in FY 2018. The cash credit limit remains utilised at 89 percent during the last 6 months period ended December 2018. The company maintains unencumbered cash and bank balances of Rs.0.04 crore as on March 31, 2018. The current ratio stands healthy at 1.36 times as on March 31, 2018. RIPPL is likely to incur capex of Rs.12.00 crore over the medium which is likely to be funded by promoter's contribution in terms of unsecured loans. Acuité believes that the liquidity of the RIPPL is likely to remain adequate over the medium term on account of healthy cash accrual and repayments over the medium term.

Outlook: Stable

Acuité believes that RIPPL will maintain a 'Stable' outlook over the medium term owing to the robust growth in revenues and healthy financial risk profile and comfortable debt protection. 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

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	94.57	59.41	53.02
EBITDA	Rs. Cr.	7.47	4.79	4.23
PAT	Rs. Cr.	3.18	0.97	0.88
EBITDA Margin	(%)	7.90	8.06	7.98
PAT Margin	(%)	3.36	1.63	1.66
ROCE	(%)	9.99	6.06	10.46
Total Debt/Tangible Net Worth	Times	0.38	0.40	0.41
PBDIT/Interest	Times	3.58	2.09	2.18
Total Debt/PBDIT	Times	2.37	3.64	4.14

Gross Current Assets (Days)	Days	133	263	298
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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>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.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
26-Feb-2018	Cash Credit	Long Term	17.50	ACUITE BBB- / Stable (Assigned)
	Bank Guarantee	Short Term	1.00	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	23.50 (Enhanced from Rs.17.50 Cr.)	ACUITE BBB / Stable (Upgraded from ACUITE BBB/Stable)
Term Loans	Not Applicable	Not Applicable	Not Applicable	9.00	ACUITE BBB / Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A3+ (Upgraded from ACUITE A3)

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About Acuité Ratings & Research:

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