

Press Release

Raigarh Ispat And Power Limited

November 25, 2019

Rating Reaffirmed & Assigned



| | |
|-------------------------------------|--|
| Total Bank Facilities Rated* | Rs.78.50 Cr. (Enhanced from Rs.33.50) |
| Long Term Rating | ACUITE BBB / Outlook: Stable |
| Short Term Rating | ACUITE A3+ |

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed its long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) and short term rating of '**ACUITE A3+**' (read as **ACUITE A three plus**) on the Rs.33.50 crore and assigned the long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) on the Rs.45.00 crore of Raigarh Ispat And Power Private Limited (RIPPL). The outlook is '**Stable**'.

Raigarh based, RIPPL was incorporated in 2004 by Mr. Kamal Kishor Agrawal, Mr. Sushil Kumar Agrawal and Mr. Shrawan Kumar Agrawal. RIPPL is engaged in the manufacturing of sponge iron with installed capacity of 1,20,000 MTPA. The company has recently started production of billets from November, 2019 with installed capacity of 90,000 MTPA. The manufacturing units are located in Raigarh (Chhattisgarh).

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the RIPPL to arrive at this rating.

Key Rating Drivers

Strengths

• Experienced management and improving business risk profile

RIPPL was incorporated in 2004 and is promoted by Mr. Kamal Kishor Agrawal, Mr. Sushil Kumar Agrawal and Mr. Shrawan Kumar Agrawal. The promoters have around two decades of experience in steel business through other group entities. The promoter's extensive experience has helped the company to establish healthy relationship with the customers and suppliers.

RIPPL's operating income witnessed a compound annual growth rate (CAGR) of 57 per cent over the past three years through FY2019 at Rs.205.22 crore. Further for FY2020, RIPPL has reported revenues of around Rs.201 crores till October 2019 (Provisional). Over the years, the company has expanded its capacity to the present total capacity of 120000 Metric Tons Per Annum (MTPA). RIPPL also has installed power plant unit of 12 MW and furnace of 90000 MTPA for producing Billets. The commercial production has started since November, 2019.

Acuité believes that RIPPL will continue to benefit from promoter's extensive experience in the steel industry and its improving business risk profile over the medium term.

• Healthy financial risk profile

RIPPL's financial risk profile is healthy, marked by healthy net worth, low gearing and healthy debt protection metrics. The net worth of RIPPL is healthy at around Rs.73.94 crores as on March 31, 2019 as against Rs.47.38 crore as on March 31, 2018. The net worth levels have seen significant improvement over the last three years through FY2019 on account of healthy accretion to reserves and the unsecured loans considered as quasi equity of Rs.14.92 crore as on March 31, 2019.

The company has followed a conservative financial policy, the same is reflected through its peak gearing in the past around 0.40 times as on 31 March, 2017, and improved marginally to 0.37 times as on 31 March, 2019. The company has undergone capital expenditure plan of Rs.75 crore for installing power plant of 12 MW and 3 furnaces to expand its scale of operations into production of billets in current financial year. Out of which, terms loans of Rs.40.00 crore has been sanctioned from the bank and rest is funded by promoter's contribution and internal accruals. The total outside liabilities to tangible net worth

(TOL/TNW) level stood at 0.67 times as on March 31, 2019 as against 0.61 times as on March 31, 2018. The total debt of Rs.27.70 as on March 31, 2019 comprising of working capital borrowings to the tune of Rs.17.50 crore and term loans to the tune of Rs.10.20 crore.

The debt protection metrics have improved significantly marked by Interest Coverage Ratio (ICR) and Debt Service Coverage Ratio (DSCR) in the range of 2.09-7.90 times and 1.82-5.73 through FY2019. This is due to the steady growth in operations coupled with stable interest expenses of RIPPL. NCA/TD stood healthy at 0.48 times in FY2019 against 0.23 times in FY2018.

Acuite believes that the financial risk profile is expected to be at similar levels over the medium term.

• Improving working capital cycle

The operation of RIPPL has improved significantly marked by GCA days of 97 in FY2019, an improvement from 133 in FY2018. The improvement was majorly due to reduction in inventory days, RIPPL has peak inventory days of 176 days in FY2017. This has improved to 50 days in FY2019. Further, debtor days has also followed improving pattern from peak 41 days in FY2017 to 16 days in FY2019. Further, RIPPL enjoys credit period of average 20 days which moderates the reliance on working capital borrowings. The average utilization stood at 66% for past one year ended in September, 2019.

Acuite believes that the efficient working capital management will be crucial to the company in order to maintain a stable credit profile.

Weaknesses

• Debt funded capex plan

The company has recently settled up the power plant of 12 MW and induction furnace of 90000 MTPA to expand its scale of operations into production of billets in current financial year. The total project cost was of Rs.75.00 crore. Out of which, terms loans of Rs.40.00 crore has been sanctioned from the bank and rest has funded by promoter's contribution and internal accruals. Acuite expects that the completed capex will support the viability of manufacturing unit.

• 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 cyclicity in these sectors.

Rating Sensitivity

- Substantial improvement in scale of operation while maintaining profitability margins over the medium term.
- Elongated working capital cycle.

Material covenants

None

Liquidity position: Adequate

RIPPL has adequate liquidity marked by adequate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.2-13 crore during the last two years through FY2019, while its maturing debt obligations were in the range of Rs.0.19-2 crore over the same period. The cash accruals of the company are estimated to remain around Rs.15-20 crore during 2020-22, while its repayment obligation are estimated to be around Rs.2-8 crore. The working capital operations of RIPPL improved significantly marked by gross current asset (GCA) days of 97 in FY2019. The cash credit limit remains utilised at 66 percent during the last one year ended September 2019. The company maintains unencumbered cash and bank balances of Rs.1.24 crore as on March 31, 2019. The current ratio stands at 1.45 times as on March 31, 2019. Acuite believes that the liquidity of the RIPPL is likely to remain adequate over the medium term on account of adequate cash accrual against repayments over the medium term.

Outlook: Stable

Acuite believes that RIPPL will maintain a 'Stable' outlook over the medium term from its promoter's industry experience and improving business risk profile. The outlook may be revised to 'Positive' in case of significant growth in its revenues and higher than expected cash accruals. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital operations leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

| | Unit | FY19 (Actual) | FY18 (Actual) | FY17 (Actual) |
|-------------------------------|---------|---------------|---------------|---------------|
| Operating Income | Rs. Cr. | 205.22 | 94.57 | 59.41 |
| EBITDA | Rs. Cr. | 18.54 | 7.47 | 4.79 |
| PAT | Rs. Cr. | 11.64 | 3.18 | 0.97 |
| EBITDA Margin | (%) | 9.03 | 7.90 | 8.06 |
| PAT Margin | (%) | 5.67 | 3.36 | 1.63 |
| ROCE | (%) | 21.49 | 9.99 | 6.06 |
| Total Debt/Tangible Net Worth | Times | 0.37 | 0.38 | 0.40 |
| PBDIT/Interest | Times | 7.90 | 3.58 | 2.09 |
| Total Debt/PBDIT | Times | 1.37 | 2.37 | 3.64 |
| Gross Current Assets (Days) | Days | 97 | 133 | 263 |

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.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 |
|-------------|---------------------------------|-----------|------------------|---------------------------------|
| 20-Feb-2019 | Cash Credit | Long Term | 23.50 | ACUITE BBB / Stable (Upgraded) |
| | Term Loan | Long Term | 9.00 | ACUITE BBB / Stable (Assigned) |
| | Bank Guarantee | Long Term | 1.00 | ACUITE A3+ (Upgraded) |
| 26-Feb-2018 | Cash Credit | Long Term | 17.50 | ACUITE BBB- / Stable (Assigned) |
| | Bank Guarantee | Long 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. Crore) | Ratings/Outlook |
|------------------------|------------------|----------------|----------------|-------------------------------|--------------------------------|
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 23.50 | ACUITE BBB/Stable (Reaffirmed) |
| Term Loan | Not Applicable | Not Applicable | Not Applicable | 9.00 | ACUITE BBB/Stable (Reaffirmed) |
| Term Loan | Not Applicable | Not Applicable | Not Applicable | 40.00 | ACUITE BBB/Stable (Assigned) |
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 5.00 | ACUITE BBB/Stable (Assigned) |
| Bank Guarantee | Not Applicable | Not Applicable | Not Applicable | 1.00 | ACUITE A3+ (Reaffirmed) |

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About Acuite Ratings & Research:

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