

Press Release

Lupin Forging Private Limited

18 April, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 7.00 Cr.
Long Term Rating	SMERA BB- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of **'SMERA BB-' (read as SMERA double B minus)** on the Rs.7.00 crore bank facilities of Lupin Forging Private Limited. The outlook is **'Stable'**.

Lupin Forging Private Limited (LFPL), incorporated in 2009 by Mr. Sukhmal Kumar Jain and Mrs. Saroj Jain, is engaged in the manufacturing of steel and iron angles, sheets, bars among others. The manufacturing unit is located at Jaipur with installed capacity of 20,000 tons per annum.

About the Group

R.N. Forging Private Limited (RNFPL) incorporated in 1997 by Mr. Nitin Jain, Mrs. Alka Jain and Mr. Chandra Mohan Mishra is engaged in the manufacturing of MS ingots using scrap and sponge iron as its raw material. Later in 2009, Mr. Sukhmal Jain (son of Mr. Nitin Jain) started a new company named as Lupin Forging Private Limited (LFPL). Both the companies together are part of the same group owing to a common management and financial synergies.

Key Rating Drivers

Strengths

• Experienced management and long track record of operations

LFPL was incorporated in 2009 and commenced operations in 2010. It is headed by Mr. Sukhmal Kumar Jain and Mrs. Saroj Jain who possess extensive experience of around three decades in the steel industry. RNFPL was incorporated in 1997 by Mr. Nitin Jain, Mrs. Alka Jain and Mr. Chandra Mohan Mishra with extensive experience in the steel industry. SMERA believes that the long track record of operations and extensive experience of the management has helped the company maintain long term relations with customers and suppliers.

• Comfortable working capital cycle

The working capital cycle of the group is comfortable marked by Gross Current Asset (GCA) of 96 days in FY2017 as against 112 days in FY2016 on account of debtor days of 60 in FY2016-17 as compared to 66 in FY2015-16. The inventory days stood at 20 in FY2017 as against 38 in FY2016. The creditor days stood at 31 for FY2017 as against 46 for FY2016.

• Improvement in scale of operations

The group has an improvement in scale of operations marked by operating income of Rs.85.40 crore in FY2017 as against Rs.73.89 crore in FY2016. Further, the operating income of the group stood at Rs.102.00 crore for FY2017-18(Provisional).

Weaknesses

• Average financial risk profile

The financial risk profile has remained average marked by low net worth of Rs.4.60 crore as on 31 March 2017 as against Rs.4.44 crore as on 31 March 2016. The gearing stood high at 3.80 times as on 31 March, 2017 compared to 3.97 times as on 31 March, 2016. This was on account of additional

unsecured loans taken from financial institutions for working capital requirements of the group. The total debt of Rs.17.45 crore outstanding as on 31 March, 2017 constitutes Rs.4.10 crore of unsecured loans from Directors, Rs.10.09 crore of working capital facility and Rs.3.26 crore of long term loans from banks and financial institutions. The ICR stood at 1.57 times in FY2017 as against 1.54 times in FY2016. The Net Cash Accruals stood at Rs.1.04 crore in FY2017 as against Rs.1.06 crore in FY2016. The Net Cash Accruals/Total Debt ratio remained stable at 0.06 times in FY2017 and FY2016.

• Competitive and fragmented industry

The steel trading industry is fragmented.. LFPL & RNFPL face intense competition from a large number of organised and unorganised players, which restricts pricing flexibility.

• Raw material fluctuation risk

The prices of major raw materials, iron and steel are volatile in nature. As a result, the margins of LFPL and RNFPL are susceptible to fluctuations in raw material prices.

Analytical approach

SMERA has taken consolidated approach and combined the business and financial risk profiles of Lupin Forging Private Limited and R.N. Forging Private Limited owing to financial synergies and a common management.

Outlook: Stable

SMERA believes that the group will maintain a stable outlook over the medium term due to its established presence in the iron and steel industry and experienced management. The outlook may be revised to 'Positive' if the company's scale of operations increases substantially, while maintaining its operating profitability and improving its coverage indicators. Conversely, the outlook may be revised to 'Negative' in case of failure in achieving scalability amidst intensifying competition in its area of operation or if the financial risk profile deteriorates owing to higher-than-expected increase in debt-funded working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	85.40	73.89	102.53
EBITDA	Rs. Cr.	3.09	3.06	3.05
PAT	Rs. Cr.	0.20	0.19	0.24
EBITDA Margin	(%)	3.62	4.14	2.97
PAT Margin	(%)	0.24	0.26	0.24
ROCE	(%)	10.48	10.74	20.29
Total Debt/Tangible Net Worth	Times	3.80	3.97	3.67
PBDIT/Interest	Times	1.57	1.54	1.79
Total Debt/PBDIT	Times	5.56	5.64	5.05
Gross Current Assets (Days)	Days	96	112	68

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smerra.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smerra.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smerra.in/criteria-fin-ratios.htm>
- Consolidation Of Companies - <https://www.smerra.in/criteria-consolidation.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. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	7.00	SMERA BB- / Stable

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ABOUT SMERA

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