

Press Release

R N Forging Private Limited

18 April, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 9.00 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 BB minus**) on the Rs.9.00 crore bank facilities of R N Forging Private Limited. The outlook is '**Stable**'.

R.N. Forging Private Limited (LFPL) 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. The manufacturing unit is located at Jaipur with installed capacity of 30,000 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

RNFPL was incorporated in 1997 by Mr. Nitin Jain, Mrs. Alka Jain and Mr. Chandra Mohan Mishra who have an experience of more than 15, 6 and 11 years respectively in the steel industry. LFPL was incorporated in 2009 and started its operations in 2010. It is headed by Mr. Sukhmal Kumar Jain and Mrs. Saroj Jain having an experience of over 30 and 18 years respectively, 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) days of 96 days in FY2017 as against 112 days in FY2016. The debtor days stood at 60 in FY2016-17 as compared to 66 in FY2015-16 and inventory of 20 days in FY2017 as against 38 days in FY2016. The creditor days stood at 31 for the year ending FY2017 as against 46 for the year ending FY2016.

• Growing scale of operations

The group has a growing scale of operations marked by an operating income of Rs.85.40 crore in FY2017 as against Rs.73.89 crore in FY2016. Further, the group has booked gross revenue of Rs.102.00 crore for the period of April, 2017 to February, 2018 (Provisional).

Weaknesses

• Average financial risk profile

The financial risk profile of the group 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 as against 3.97 times as on 31 March 2016 on account of additional unsecured loans from various financial institutions in order to handle the working capital requirement of the group. The total debt of Rs.17.45 crore outstanding as on 31 March 2017 comprises Rs.4.10 crore as unsecured loans from Directors, Rs.10.09 crore as a working capital facility from the bank and Rs.3.26 crore as long term loans from various banks and financial institutions. The ICR stood at 1.57 times in FY2017 as against 1.54 times in FY2016. The net cash accruals of the firm stood at Rs.1.04 crore in FY2017 as against Rs.1.06 crore in FY2016. NCA/TD ratio remained stable at 0.06 times in FY2017 and FY2016.

• Competitive and fragmented industry

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

• Raw material price fluctuation risk

The major raw material for the group companies is iron and steel. The prices of the raw material are volatile in nature and move in tandem with global demand-supply factors. Thus, the margins of LFPL and RNFPL are susceptible to movement 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.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>
- Consolidation Of Companies - <https://www.smera.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	9.00	SMERA BB- / Stable

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ABOUT SMERA

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