

Press Release

DRA Industries Limited

02 May, 2018



Rating Assigned

| | |
|-------------------------------------|-----------------------------|
| Total Bank Facilities Rated* | Rs. 29.00 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 triple B minus**) and short term rating of '**SMERA A3**' (read as **SMERA A three**) on the Rs.29.00 crore bank facilities of DRA Industries Limited. The outlook is '**Stable**'.

DRA Industries Limited (DRAI) is a Chennai (Tamil Nadu) based company incorporated in 2008. The company is promoted by Mr. Deepak Kumar Bhatia and is engaged in the manufacturing of steel billets and TMT bars. The installed production capacity is 96,000 tonnes per annum for steel billets and the manufacturing of TMT bars is outsourced. The products are sold under the brand name 'DRA' and 'Shakti'.

Key rating drivers

Strengths

Experienced Management

Mr. Deepak Kumar Bhatia possesses more than a decade of experience in the steel industry.

Steady growth in revenue and healthy profitability

The company has been growing at CAGR of 16.34 percent from FY2016 to FY2018. It earned revenue of Rs.182.35 crore in FY2017 and has achieved revenue of Rs.285.35 crore (Provisional) for FY2018. The operating margins have remained in the range of 3.40 percent to 5.00 percent in the past three years ended 31 March, 2018. The operating margins improved in FY2018 to 5.17 percent (Provisional) as compared to 4.58 percent in FY2017.

Moderate financial risk profile

DRAI has a moderate financial risk profile marked by healthy net worth of Rs.47.89 crore (Provisional) as on 31 March, 2018 compared to Rs.42.12 crore as on 31 March, 2017. The gearing stood at 1.85 times (Provisional) as on 31 March, 2018 as against 2.28 times as on 31 March, 2017. The total debt of Rs.88.41 crore (Provisional) comprises term loan of Rs.2.90 crore from bank, unsecured loans from related parties of Rs.12.72 crore and working capital funds of Rs.72.79 crore as on 31 March, 2018. The interest coverage ratio stood at 2.02 times (Provisional) in FY2018 as against 1.50 times in FY2017. The net cash accruals stood at Rs.5.84 crore (Provisional) as against repayment obligation of Rs.1.87 crore (Provisional) in FY2018.

Going forward, SMERA expects the firm to maintain its financial risk profile in the absence of major debt funded capex plan.

Weaknesses

Working capital intensive nature of operations and stretched liquidity

The operations are working capital intensive in nature marked by Gross Current Assets (GCA) days of 144 (Provisional) in FY2018 and 199 in FY2017. The GCA days are high on account of high inventory holding period of 107 days (Provisional) in FY2018 and 163 days in FY2017. The liquidity position of the firm is stretched as the cash credit limit is 87.49 percent utilised during the last six months ended 31 March, 2018.

Volatility in raw material prices

The margins of the company are susceptible to volatility in raw material prices which have been uneven during the period under study of FY2014- FY2018. Significant changes in raw material prices due to import pressure and over supply will have an impact on the margins of the company.

Analytical approach:

SMERA has considered the standalone business and financial risk profiles of DRA Industries Limited to arrive at the rating.

Outlook – Stable

SMERA believes that the company will maintain a 'Stable' outlook over the medium term owing to the experienced management and moderate financial risk profile. The outlook may be revised to 'Positive' in case the company registers higher than expected growth in revenues while achieving improvement in profitability. Conversely, the outlook may be revised to 'Negative' in case of steep decline in profitability, or deterioration in the capital structure.

About the Rated Entity - Key Financials

| | Unit | FY18 (Prov) | FY17 (Actual) | FY16 (Actual) |
|-------------------------------|---------|-------------|---------------|---------------|
| Operating Income | Rs. Cr. | 285.35 | 182.63 | 180.77 |
| EBITDA | Rs. Cr. | 14.75 | 8.36 | 6.14 |
| PAT | Rs. Cr. | 4.24 | 0.35 | 0.90 |
| EBITDA Margin | (%) | 5.17 | 4.58 | 3.39 |
| PAT Margin | (%) | 1.48 | 0.19 | 0.50 |
| ROCE | (%) | 9.65 | 5.12 | 2.28 |
| Total Debt/Tangible Net Worth | Times | 1.85 | 2.28 | 2.81 |
| PBDIT/Interest | Times | 2.02 | 1.50 | 2.71 |
| Total Debt/PBDIT | Times | 5.82 | 10.50 | 13.57 |
| Gross Current Assets (Days) | Days | 144 | 199 | 194 |

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

None

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>

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 | 25.00 | SMERA BBB-/ Stable (Assigned) |
| Letter of Credit | Not Applicable | Not Applicable | Not Applicable | 4.00 | SMERA A3 (Assigned) |

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ABOUT SMERA

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