



Press Release

DRA INDUSTRIES LIMITED

October 17, 2018

Rating Reaffirmed and Assigned

Total Bank Facilities Rated*	Rs. 125.00 Cr. (Enhanced from Rs.79.00 Cr)
Long Term Rating	ACUITE BBB- / Outlook: Negative (Rating Reaffirmed & Assigned and outlook revised)
Short Term Rating	ACUITE A3 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) and short term rating of '**ACUITE A3**' (**read as ACUITE A three**) to the Rs. 101.00 crore bank facilities of DRA INDUSTRIES LIMITED (DRA). The outlook is revised from '**Stable**' to '**Negative**'.

Further, Acuité has assigned long term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) and short-term rating of '**ACUITE A3**' (**read as ACUITE A three**) to the Rs. 24.00 crore bank facilities of DRA. The outlook is '**Negative**'.

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 180000 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'.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

DRA was incorporated in 2008. Its established track record will help maintain relationships with customers and suppliers. 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 16.49 percent from FY2016 to FY2018. It earned revenue of Rs.180.77 crore in FY2017 and has achieved revenue of Rs.288.96 crore 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 5.22 percent as compared to 4.58 percent in FY2017.

- **Moderate financial risk profile**

DRA has moderate financial risk profile marked by moderate net worth of Rs.44.96 crore as on 31 March, 2018 compared to Rs.42.12 crore as on 31 March, 2017. The gearing improved to 1.69 times as on 31 March, 2018 from 1.95 times as on 31 March, 2017 and remains moderate. The total debt of

Rs.76.21 crore comprises term loan of Rs.2.91 crore from bank, loans from promoters/relatives of Rs.12.62 crore and working capital loan of Rs.60.68 crore as on 31 March, 2018. The interest coverage ratio stood at 1.98 times in FY2018 as against 1.50 times in FY2017, this is mainly due to increase in profitability in FY2018. The net cash accruals stood at Rs.6.49 crore in FY2018.

Weaknesses

• Project implementation and funding risk

DRA is setting up a rolling mill at an estimated project cost of Rs.32.00 crore to be funded through promoter's contribution of Rs.4.00 crore, internal accruals of Rs.4.00 crore and term loan from bank of Rs.24.00 crore. The company is yet to achieve financial closure for the debt portion of its project cost. The civil work and installation of machinery is expected to commence by October, 2018 and will be completed by March, 2019. The operations are likely to commence from April, 2019. Hence, the project is exposed to significant project implementation risk in case of time or cost overruns. Going forward, the debt funded capex plan may have an impact on the financial risk profile of the company resulting in deterioration of gearing position and other coverage indicators.

• Working capital intensive nature of operations and stretched liquidity

The operations are working capital intensive in nature marked by Gross Current Asset (GCA) days of 147 in FY2018 and 199 in FY2017. The GCA days are high on account of high inventory holding period of 106 days in FY2018 and 163 days in FY2017. The liquidity position of the company is stretched as the cash credit limit is 95.85 percent utilised during the last six months ended 31 August, 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.

Outlook: Negative

Acuité believes that the outlook of DRA will remain 'Negative' over the medium term due to ongoing debt funded capex plan. The rating may be downgraded in case of delay in commencement of commercial operations or cost overruns leading deterioration in the financial risk profile. Conversely, the outlook may be revised to 'Stable' if the company continues to registers significant improvement in revenue while maintaining profitability and timely completion of project.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	288.96	182.63	180.77
EBITDA	Rs. Cr.	15.09	8.36	6.14
PAT	Rs. Cr.	3.40	0.35	0.90
EBITDA Margin	(%)	5.22	4.58	3.39
PAT Margin	(%)	1.18	0.19	0.50
ROCE	(%)	9.83	5.39	2.28
Total Debt/Tangible Net Worth	Times	1.69	1.95	2.81
PBDIT/Interest	Times	1.98	1.50	2.71
Total Debt/PBDIT	Times	4.92	8.97	13.57
Gross Current Assets (Days)	Days	147	199	194

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

None

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-8.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
14-May-2018	Cash Credit	Long Term	30.00 (Enhanced from Rs.25.00 Cr)	ACUITE BBB- / Stable (Reaffirmed)
	Term Loan	Long Term	3.63	ACUITE BBB- / Stable (Assigned)
	Letter of Credit	Short Term	45.00 (Enhanced from Rs.4.00 Cr)	ACUITE A3 (Reaffirmed)
	Proposed Bank Facility	Long Term	0.37	ACUITE BBB- / Stable (Assigned)
02-May-2018	Cash Credit	Long Term	25.00	ACUITE BBB- / Stable (Assigned)
	Letter of Credit	Short Term	4.00	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	30.00	ACUITE BBB- / Negative (Rating Reaffirmed, Outlook revised)
Term Loan	Not Applicable	Not Applicable	Not Applicable	2.75	ACUITE BBB- /Negative (Rating Reaffirmed, Outlook revised)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	45.00	ACUITE A3 (Reaffirmed)
Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	24.00	ACUITE BBB- /Negative (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	23.25	ACUITE BBB- /Negative (Rating Reaffirmed, Outlook revised)

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About Acuité Ratings & Research:

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