

## Press Release

### DRA Industries Limited

September 27, 2019



### Rating Reaffirmed and Withdrawn

<b>Total Bank Facilities Rated*</b>	Rs. 75.00 Cr. (Reduced from Rs.125.00 crore)
<b>Long Term Rating</b>	ACUITE BBB- / Outlook: Negative
<b>Short Term Rating</b>	ACUITE A3

\* Refer Annexure for details

### Rating Rationale

Acuite 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**) on the Rs. 75.00 crore bank facilities of DRA INDUSTRIES LIMITED. The outlook is '**Negative**'.

Acuite has withdrawn long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on the Rs. 2.75 crore bank facilities of DRA INDUSTRIES LIMITED.

The rating has been withdrawn on account of repayment of term loan and NOC received from the banker.

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'.

### Analytical Approach

Acuite 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**

DIL is promoted by Mr. Deepak Kumar Bhatia along with Mr. Sumeet Bhatia and Mr. Sandeep Sharma, the promoters of the company have been engaged in the same industry for more than two decades. The senior management team is ably supported by a strong line of mid-level managers. The extensive experience of the promoters is reflected through the established relationship with its customers and suppliers.

Acuite believes that the company will continue to benefit from its experienced management and established relationships with customers.

- **Increase in scale of operations and profitability**

The company reported revenue growth of ~41.82 per cent with operating income of Rs.409.81 crore in FY2019 as against operating income of Rs.288.96 crore in FY2018. However, this growth is majorly due to high sea sales of around Rs.70.53 crore in FY2019 as against Rs.45.62 crore in FY2018. Further, the operating margins of the company increased to 5.19 per cent in FY2019 from 4.70 per cent in FY2018.

Acuite believes that though the turnover has increased in FY2019, it is majorly because of the high sea sales that carry high forex risk. However, the core business of the company is manufacturing of MS Billets. Further, the company has incurred exchange rate loss of Rs.4.03 crore in FY2019, which has affected the profitability significantly and allowed PAT margin to increase marginally.

#### • **Moderate financial risk profile**

DRA's financial risk profile is moderate, marked by a moderate network, low gearing and moderate debt protection metrics. The network is moderate estimated at around Rs.50.76 crore as on March 31, 2019. The network levels have seen improvement over the last three years through FY2019 on account of equity infusion of Rs.0.41 crore by the promoters and healthy accretion to reserves during the same period. The gearing (debt to equity) of the company stood low at 0.73 times as on March 31, 2019 as against 1.69 times as on March 31, 2018. However, trade payables have increased to Rs.54.82 crore in FY2019 from Rs.31.35 crore in FY2018 and Rs.15.07 crore in FY2017. Rs.54.82 crore includes letter of credit of around Rs.46.32 crore. Total debt of Rs.37.08 crore consists of term loan of Rs.0.76 crore, unsecured loans of Rs.10.47 crore and working capital facility of Rs.25.85 crore as on 31 March, 2019. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.98 times as on 31 March, 2019 as against 2.57 times as on 31 March, 2018. Interest Coverage Ratio (ICR) deteriorated to 1.64 times in FY2019 from 2.21 times in FY2018. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.20 times as on 31 March, 2019 as against 0.08 times as on 31 March, 2018. Debt Service Coverage Ratio (DSCR) marginally deteriorated to 1.36 times in FY2019 from 1.48 times in FY2018.

### **Weaknesses**

#### • **Intensive working capital operations**

The working capital operation of DRA is intensive marked by Gross Current Asset (GCA) days of 100 for FY2019 as against 147 in the previous year. The inventory and debtor levels stood at 72 and 30 days in FY2019 as against 105 and 46 days in FY2018, respectively. The reliance on working capital facility is high, it is fully utilised last 6 months ending August, 2019.

Acuite believes that going ahead, the ability of the company to efficiently manage its working capital requirements will remain the key rating sensitivity.

#### • **Volatility in raw material prices and foreign exchange fluctuation**

The margins of the company are susceptible to volatility in raw material prices, which have been uneven during the period under study of FY2017 - FY2019. Significant changes in raw material prices due to import pressure and over supply will have an impact on the margins of the company. Further, the company also carries out high sea sales, which is exposed to foreign exchange fluctuation. However, DRA generally enters into forward covers which partially mitigate the forex risk.

### **Rating Sensitivity**

- Increase in scale of operations in the core line of business of around Rs.400.00 to Rs.450.00 crore.
- Deterioration in Gross Current Assets (GCA) days marked by the range of 150 to 200 days.

### **Material covenants**

None

### **Liquidity Position**

DRA has adequate liquidity marked by moderate net cash accruals. The company generated cash accruals of Rs.7.49 crore in FY2019, Rs.5.93 crore in FY2018 and Rs.2.34 crore in FY2017. However, the company's working capital operations are intensive as marked by gross current asset (GCA) days of 100 in FY2019. Further, the reliance on working capital borrowings is high, the cash credit limit in the company remains fully utilized during the last 6 months' period ended August, 2019. The company maintains unencumbered cash and bank balances of Rs.0.13 crore as on March 31, 2019. The current ratio of the company stood at 1.35 times as on March 31, 2019. The company is not likely to incur any capex in the near to medium term.

Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of moderate cash accrual and no major repayments over the medium term.

### **Outlook: Negative**

Acuite believes that DRA's outlook will remain 'Negative' over the medium term as the credit profile is expected to be impacted by deteriorating liquidity position. The rating may be downgraded in case of further deterioration in liquidity position and debt protection metrics. Conversely, the outlook may be revised to 'Stable' if the company manages to improve its liquidity position and sustain the operating growth.

### About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	409.81	288.96	182.63
EBITDA	Rs. Cr.	21.28	13.57	8.36
PAT	Rs. Cr.	4.16	2.85	0.35
EBITDA Margin	(%)	5.19	4.70	4.58
PAT Margin	(%)	1.02	0.99	0.19
ROCE	(%)	17.14	8.63	5.39
Total Debt/Tangible Net Worth	Times	0.73	1.69	1.95
PBDIT/Interest	Times	1.64	2.21	1.50
Total Debt/PBDIT	Times	1.70	5.45	8.97
Gross Current Assets (Days)	Days	100	147	199

### 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-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
17-Oct-2018	Cash Credit	Long Term	30.00	ACUITE BBB- /Negative (Reaffirmed)
	Proposed Bank Facility	Long Term	23.25	ACUITE BBB- /Negative (Reaffirmed)
	Proposed Term Loan	Long Term	24.00	ACUITE BBB- /Negative (Assigned)
	Letter of Credit	Short Term	45.00	ACUITE A3 (Reaffirmed)
	Term Loan	Long Term	2.75	ACUITE BBB- /Negative (Reaffirmed)
14-May-2018	Cash Credit	Long Term	30.00	ACUITE BBB- / Stable (Reaffirmed)
	Term Loan	Long Term	3.63	ACUITE BBB- / Stable (Assigned)
	Letter of Credit	Short Term	45.00	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 (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	2.75	ACUITE BBB- (Withdrawn)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	45.00	ACUITE A3 (Reaffirmed)

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**About Acuité Ratings & Research:**

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