

Press Release

Rattan Steel Supply Co. (RSSC)

04 May, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 11.00 Cr.
Short Term Rating	SMERA B+/Stable

* Refer Annexure for details

Rating Rationale

SMERA has assigned a long term rating of '**SMERA B+**' (**read as SMERA B plus**) on the Rs. 11.00 crore bank facilities of Rattan Steel Supply Co. (RSSC). The outlook is '**Stable**'.

Rattan Steel Supply Co. (RSSC) was established in the year of 1967 as a proprietorship concern and reconstituted as a partnership firm in 1980. Currently the day to day operation is managed by Mr. Ajay Gupta, partner. The firm is engaged in trading and supplying of alloy steel and mild steel.

Key Rating Drivers

Strengths

- **Experienced management and long track record of operation**

The partner of RSSC, Mr. Ajay Gupta has experience of almost three decades in trading of iron and steel products. The firm is into similar line of business since 1967.

- **Moderate scale of operation**

The firm's scale of operation stood moderate at Rs.51.31 crore in FY2017 as compared to Rs.72.86 crore in the previous year. The firm has booked Rs.55.00 crore till March'2018 (provisional).

Weaknesses

- **Average financial risk profile**

The average financial risk profile of the company is marked by moderate networth, moderate gearing and modest debt protection metrics. The net worth of the company stood moderate at Rs.11.30 crore in FY2017 as compared to Rs.13.74 crore in FY2016. The gearing of the company stood moderate at 1.46 times in FY2017 as compared to 1.56 times in FY2016. The total debt of Rs.16.55 core consists of short term debt of Rs. 16.38 crore, long term loan of Rs.0.09 crore and unsecured loan of Rs.0.07 crore. The total outside liability against the tangible Networth (TOL/TNW) of the company stands moderate at 1.62 times in FY2017 as compare to 1.60 times in previous year. The interest coverage ratio (ICR) of the company stood modest at 1.19 times in FY2017 as compare to 1.23 times in FY2016. The debt service coverage ratio (DSCR) of the company stood at 1.14 times in FY2017 as compare to 1.17 times in FY2016. The net cash accruals against the total debt stand low at 0.02 times in FY2017 as compare to 0.02 times in FY2016.

- **Working capital intensive nature of operation**

RSSC's nature of operations is working capital intensive marked by high Gross Current Asset (GCA) days of 207 days and 177 days in FY2017 and FY2016 respectively. Such high GCA days is mainly due to high debtors days (139 days and 136 days in FY2017 and FY2016 respectively) as the firm provides high credit to their customers. The firm also has to maintain significant amount of raw materials inventory due to volatility in raw material prices. The inventory days stood at 55 days and 33 days in FY2017 and FY2016 respectively.

- **Volatility in raw material prices and finished goods**

Margins of the firm are susceptible to volatility in iron and steel prices. Any significant changes in iron and steel prices due to import pressure and over supply would have an impact on margins of the firm.

Analytical Approach

For arriving at the ratings SMERA has considered the standalone financial performance and financial risk profile of RCCS.

Outlook: Stable

SMERA believes RSSC will continue to benefit over the medium term from its long track record of operation. The outlook may be revised to 'Positive' in case the firm registers higher-than-expected growth in revenues while achieving sustained improvement in profit margins and financial risk profile. Conversely, the outlook may be revised to 'Negative' in case the firm fails to achieve the projected revenues, or in case of further deterioration in the firm's financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	51.31	72.86	76.22
EBITDA	Rs. Cr.	2.30	2.41	2.24
PAT	Rs. Cr.	0.20	0.27	0.26
EBITDA Margin	(%)	4.49	3.30	2.94
PAT Margin	(%)	0.38	0.37	0.35
ROCE	(%)	7.07	6.38	11.50
Total Debt/Tangible Net Worth	Times	1.46	1.56	1.67
PBDIT/Interest	Times	1.19	1.23	1.26
Total Debt/PBDIT	Times	7.19	8.92	10.53
Gross Current Assets (Days)	Days	207	177	187

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

NA

Any other information

NA

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Trading Entities - <https://www.smera.in/criteria-trading.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. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	11.00	SMERA B+/Stable

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