

Press Release

Rajuri Steels Private Limited

May 21, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 85.50 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 plus**) on the Rs.85.50 crore bank facilities of Rajuri Steels Private Limited (RSPL). The outlook is '**Stable**'.

Rajuri Steels Private Limited, incorporated in 1990, is engaged in manufacturing of MS Billets and TMT bars. The manufacturing facility is located at Jalna (Maharashtra) with an installed capacity of 2,80,000 tonnes per annum (TPA) for TMT rolling and 1,40,000 tonnes per annum for MS Billets. The management is headed by Mr. Rathi and Mr. Lohiya. The company caters to the real estate and construction industries through a vast dealer network of 450 dealers, spread across Maharashtra, Madhya Pradesh, Gujarat and Karnataka.

Key Rating Drivers

Strengths

Established track record of operations and experienced management:

RSPL has been into operations since 1992. The company is headed by Mr. Rathi and Mr. Lohiya who have around two decades of experience in the said line of business. This has enabled the company to forge healthy relationships with customers and suppliers. SMERA believes that RSPL will continue to benefit from its experienced management and established relationship with its customers.

Healthy business risk profile and expected improvement in margins:

RSPL has an integrated facility for manufacturing billets and TMT bars. The company has registered a stable growth in revenue of around ~5 percent over the past 2 years in spite of fall in prices and slowdown in demand. Revenues for FY2017 stood at Rs.214.81 crore as against Rs.205.44 crore in FY2016. Further, the company has booked revenue of Rs.~395 crore for FY2018 (Provisional). The company has been able to maintain a healthy debtor profile with only 12 percent due for more than 6 months and average receivable cycle of 60-90 days.

Moderate financial risk profile:

The financial risk profile of RSPL is moderate marked by tangible net worth of Rs.62.88 crore as on 31 March, 2017 which includes quasi-equity of Rs.39.66 crore. The total debt of Rs.25.02 crore outstanding as on 31 March, 2017 comprises Rs.2.89 crore as term loan from the bank, Rs.5.53 crore as unsecured loans from the promoters and other related parties and Rs.16.60 crore as working capital borrowing from the bank. The gearing is low at 0.31 times as on 31 March, 2017 as against 0.38 times as on 31 March, 2017.

Interest Coverage Ratio stood at 2.99 times in FY2017 as against 2.55 times in FY2016. DSCR stood at 1.39 times in FY2017 as against 1.14 times in FY2016. The net cash accruals stood at Rs.3.29 crore in FY2017 as against Rs.3.15 crore in FY2016. The NCA/TD ratio stood at 0.14 times in FY2017 as against 0.14 times in FY2016. SMERA believes that RSPL will sustain its financial risk profile backed by healthy accruals over the near to medium term.

Comfortable working capital cycle:

The working capital cycle is comfortable at 88 days in FY2017 as against 85 days in FY2016. The inventory holding period stood at 39 days in FY2017 as against 40 days in FY2016. The receivable days are comfortable at 36 in FY2017 as against 38 in FY2016. The average bank limit utilisation stood at 84.91 percent for the last six months ended March, 2018. SMERA believes that the company will maintain an efficient working capital management over the near to medium term on account of adequate availability of funds.

Weaknesses

Susceptibility of profitability margins to volatility in raw material prices:

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

Competitive nature of industry:

RSPL operates in a highly competitive steel industry thereby putting pressure on capacity utilisation and pricing power. In addition, the industry is reeling under the pressure of cheaper imports. The performance is linked to the steel industry which is cyclical in nature as well as end user industries such as real estate and construction. However, this risk is mitigated as the civil construction industry is booming and the demand is much on a higher side.

Analytical Approach:

SMERA has considered the standalone business and financial risk profile of RSPL to arrive at the rating.

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>

Outlook -Stable

SMERA believes that RSPL will maintain a 'Stable' business risk profile over the medium term benefitting from its experienced management. The outlook may be revised to 'Positive' in case the company registers healthy growth in revenues while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in revenues or profit margins and deterioration in the financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	214.81	205.44	365.09
EBITDA	Rs. Cr.	7.86	6.12	7.53
PAT	Rs. Cr.	0.61	1.26	2.22
EBITDA Margin (%)	(%)	3.66	2.98	2.06
PAT Margin (%)	(%)	0.28	0.61	0.61
ROCE (%)	(%)	6.31	5.67	15.86
Total Debt/Tangible Net Worth	Times	0.99	0.75	0.75
PBDIT/Interest	Times	2.90	2.55	3.04
Total Debt/PBDIT	Times	3.05	3.49	3.07
Gross Current Assets (Days)	Days	88	85	37

Status of non-cooperation with previous CRA (if applicable): None

Any other information: None

Rating History (Up to 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	32.50	SMERA BBB-/Stable
Term Loan	Not Applicable	Not Applicable	Not Applicable	40.00	SMERA BBB-/Stable
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	7.00	SMERA A3+
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	6.00	SMERA A3+

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ABOUT SMERA

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