

## Press Release

**Narmada Iron And Associates Private Limited**

August 02, 2019



### Rating Reaffirmed and Assigned

<b>Total Bank Facilities Rated*</b>	Rs. 109.50 Cr. (Enhanced from Rs. 49.50 crore)
<b>Long Term Rating</b>	ACUITE BBB / Outlook: Stable
<b>Short Term Rating</b>	ACUITE A3+

\* Refer Annexure for details

### Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE BBB**' (**read as ACUITE triple B**) on the Rs. 49.50 crore bank facilities of NARMADA IRON AND ASSOCIATES PRIVATE LIMITED (NIPL). The outlook is '**Stable**'.

Further, Acuité has assigned the long-term rating of '**ACUITE BBB**' (**read as ACUITE triple B**) and short-term rating of '**ACUITE A3+**' (**read as ACUITE A three plus**) on the Rs. 60.00 crore bank facilities of NIPL.

NIPL was established in the year 1998 as Narmada Enterprises. Later in 2003, the constitution was changed to private limited forming Narmada Iron and Associates Private Limited (NIPL). The company is promoted by Mr. Sankar Sultania and Mr. Amar Sultania. NIPL is engaged in trading of flat products consisting of HR Coils, PM plates, HR plates/sheets and CR coils. The company procures majority of its products from SAIL, Jindal Steels and Vizag Steel Plant. NIPL has a diversified customer base which includes around 400 customers including semi wholesalers, traders and end-users in the domestic markets.

### Analytical Approach

Acuité has considered the standalone business and financial risk profile of NIPL to arrive at the rating.

### Key Rating Drivers

#### Strengths

##### • **Experienced management and long-standing track record of operations**

The company is engaged in trading of HR Coils, PM plates, HR plates/sheets and CR coils. The company is promoted by Mr. Sankar Sultania and Mr. Amar Sultania who have around two decades of experience in the steel industry. The experience of the promoters has helped the company maintain its scalability marked by turnover of Rs. 853.94 crore for FY2019 (Provisional) and Rs. 634.28 crore for FY2018. The growth in turnover is attributed mainly to growth in volumes (tonnage demand from customers), favorable prices of steel during FY2019 and addition of long steel products to the product portfolio in the last quarter. Acuité believes that NIPL will continue to benefit from its established position in the steel industry, experienced management and established relationships with customers and suppliers.

##### • **Healthy financial risk profile**

NIPL has comfortable financial risk profile marked by net worth of Rs. 79.54 crore (including Quasi Equity of Rs.25.00 crore) as on March 31, 2019 (Provisional) as compared to Rs. 59.02 crore on March 31, 2018. Gearing (debt-equity) stood at 0.88 times as on 31 March, 2019 (Provisional) as against 1.21 times in the previous year. The total debt outstanding of Rs.69.62 crore as on March 31, 2019 (Provisional) includes term loans of bank of Rs. 0.07 crore, Rs. 3.95 crore unsecured loans from promoters and working capital borrowing of Rs. 65.60 crore. NIPL has followed a conservative financial policy with regular infusion of funds by the promoters over the years. Total outside Liabilities/Tangible Net Worth (TOL/TNW) was moderate at 1.47 times as on 31 March, 2019 (Provisional) as against 1.75 times as on 31 March, 2018. Interest Coverage Ratio (ICR) stood healthy at 2.44 times in FY2019 (Provisional) as against 2.61 times in FY2018. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.12 times as on 31 March, 2019 (Provisional) as against 0.10 times as on 31 March, 2018. Acuité believes that the financial risk profile of NIPL will continue to remain healthy over the medium term on account of its improving scale of operations and healthy net cash accruals.

- **Efficient working capital management**

NIPL has efficiently managed its working capital cycle marked by GCA days of 72 days in FY2019 (Provisional) as against 81 days in FY2018. This is majorly on account of receivables period, which stood stable at 26 days in FY2019 (Provisional) as against 23 days in FY2018. The inventory holding period stood stable at 42 days in FY2019 (Provisional) as against 45 days in FY2018. As majority of NIPL's payment terms are in advance, the payables period stood at 20 days in FY2019 (Provisional) as compared to 13 days in FY2018. Further, the working capital limit utilisation is comfortable at 76 percent on an average for the last six months ended June 2019.

### **Weaknesses**

- **Profitability susceptible to volatility in raw material prices**

NIPL's profitability is vulnerable to fluctuations in steel prices which are highly volatile. The operating margin stood moderate at 2.60 percent for FY2018 as compared 2.42 percent for FY2017. Further, the operating margin stood at 2.24 per cent for FY2019 (Provisional). The Profit after Tax (PAT) margins stood at 0.98 percent in FY2019 (Provisional) against 1.09 percent in FY2018. Any further deterioration in the margin will remain a key rating sensitivity factor.

- **Susceptibility to cyclical nature of industry and Competitive nature of industry**

The steel consumption is majorly dependent on the economic activities taking place in and around the country. The end user industry being Infrastructure and Real Estate, any significant slowdown in this industry will impact the revenues of steel players. Further, NIPL competes with various players in the organised and unorganised segments in the steel trading industry, thus limiting the pricing power.

#### **Liquidity Position:**

NIPL has adequate liquidity marked by healthy net cash accruals to maturing debt obligations. NIPL generated cash accruals of Rs. 4.85-8.50 crore during the last three years through 2017-19, while its maturing debt obligations were in the range of Rs. 0.08 crore per annum. The cash accruals of NIPL are estimated to remain around Rs. 8.80-11.50 crore during 2019-21, while its repayment obligations are estimated to be around Rs. 0.06-0.07 crore. NIPL's working capital cycle is efficiently managed which has led to lower reliance on working capital borrowings, the cash credit limit in NIPL remains utilised at 76 percent during the last 6 months period ended June 2019. NIPL maintains unencumbered cash and bank balances of Rs. 0.04 crore as on March 31, 2019 (Provisional). The current ratio of NIPL stood healthy at 1.71 times as on March 31, 2019 (Provisional). NIPL is not likely to incur any major capex funded by external borrowing. Acuité believes that the liquidity of NIPL is likely to remain adequate over the medium term on account of healthy cash accrual and no major repayments over the medium term.

#### **Outlook: Stable**

Acuité believes that the outlook on NIPL will remain 'Stable' over the medium term on account of healthy revenue visibility. The outlook may be revised to 'Positive' if the company is able to increase the scale of operations while maintaining the profitability margins. On the contrary, the outlook may be revised to 'Negative' in a case of sharp decline in the scale of operations due to decline in volumes or prices, thereby impacting the margins of the company and/or sharp deterioration in working capital management of the company.

#### **About the Rated Entity - Key Financials**

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	853.94	634.28	493.07
EBITDA	Rs. Cr.	19.13	16.49	11.94
PAT	Rs. Cr.	8.35	6.92	4.68
EBITDA Margin	(%)	2.24	2.60	2.42
PAT Margin	(%)	0.98	1.09	0.95
ROCE	(%)	14.52	15.14	13.08
Total Debt/Tangible Net Worth	Times	0.88	1.21	1.47
PBDIT/Interest	Times	2.44	2.61	2.24
Total Debt/PBDIT	Times	3.40	4.07	4.55
Gross Current Assets (Days)	Days	72	81	91

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

Not applicable.

**Any other information**

None.

**Applicable Criteria**

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.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
23-May-2018	Channel Financing	Long Term	49.50	ACUITE BBB / Stable (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
Channel/Dealer/Vendor Financing	Not Applicable	Not Applicable	Not Applicable	49.50	ACUITE BBB/ Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BBB/Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	45.00*	ACUITE A3+ (Assigned)

\*Interchangeable with CC upto Rs. 7.00 crore

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**About Acuité Ratings & Research:**

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