

Press Release

Narmada Iron and Associates Private Limited

October 31, 2020



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 109.50 Cr.
Long Term Rating	ACUITE BBB / Outlook: Stable (Reaffirmed)
Short Term Rating	ACUITE A3+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE BBB**' (**read as ACUITE triple B**) and the short-term rating of '**ACUITE A3+**' (**read as ACUITE A three plus**) on the Rs. 109.50 crore bank facilities of Narmada Iron and Associates Private Limited (NIPL). The outlook is 'Stable'.

Established in 1998 as Narmada Enterprises, the company was renamed Narmada Iron and Associates Private Limited (NIPL) and reconstituted into a private limited company in 2003. Initially, the company was engaged in trading of steel long products, later, the company has been focusing on flat products consisting of HR Coils, PM plates, HR plates/sheets and CR coils. The main source for the procurement of materials is SAIL, JSPL and self-imports from around the world.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Healthy financial risk profile**

NIPL has healthy financial risk profile marked by net worth of Rs. 96.01 crore as on March 31, 2020 (Provisional) as compared to Rs. 78.66 crore on March 31, 2019. The net worth consists of quasi equity of Rs. 32.24 crore as on March 31, 2020 which is subordinated to bank borrowings. The gearing stood at 0.63 times on 31 March, 2020 (Provisional) as compared to 0.84 times as on March 31, 2019. Total debt of Rs. 60.54 crore as on March 31, 2020 (Provisional) includes term loans of Rs. 0.41 crore, working capital borrowing of Rs. 60.13 crore. The interest coverage ratio (ICR) has improved to 2.65 times in FY2020 (Provisional) as against 2.45 times in FY2019. The ICR has improved on account of higher operating profitability. TOL/TNW has improved to 0.73 times as on March 31, 2020 (Provisional) against 1.78 crore in FY2019. Further, the net cash accruals of NIPL stood at Rs. 13.98 crore for FY2020 (Provisional) as compared to Rs. 7.50 crore in FY2019. Acuité believes that NIPL will be able to sustain its financial risk profile on the back of its adequate capitalization and healthy net cash accruals of the company.

- **Efficient working capital management**

NIPL has efficiently managed its working capital cycle marked by GCA days of 69 days in FY2020 (Provisional) as against 84 days in FY2019. The company has been able to collect on its receivables consistently within 30 days. Receivable days stood at 28 days in FY2020 (Provisional) as against 27 days in FY2019. The company maintains an inventory of around month. Efficient working capital management has led to lower reliance of external debt marked by average bank limit utilization of ~45 percent for the last six months ended September 2020. Acuité believes that NIPL's ability to sustain its working capital efficiency will be a key monitorable.

- **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 NIPL. It has reported a revenue of Rs. 725.60 crore and traded 195,862 tons of products in FY2020 (Provisional) and reported Rs. 841.27 crore and traded 187668 tons in FY2019. The company caters to more than 400 dealers, wholesalers and some end users primarily in Maharashtra and Gujarat. It has facilities in Ahmedabad and Mumbai. 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.

Weaknesses

- **Company is susceptible to volatility in raw material prices**

NIPL is vulnerable to fluctuations in steel prices which are highly volatile. The revenue declined to Rs. 725.60 crore in FY2020 (Provisional) from Rs. 841.27 crore in FY2019. Mention that the volumes have increased, the decline is on account of steel price fluctuations. This is primarily on account overall of decline in steel prices. The traded quantity remained stable. However, this mitigated to some extent by NIPL's ability to maintain profitability due to its established relations with its suppliers. The operating margin stood moderate at 2.90 percent for FY2020 (Provisional) and 2.21 percent for FY2018. The Profit after Tax (PAT) margins stood at 1.90 percent in FY2020 (Provisional) against 0.87 percent in FY2018. Acuité believes that NIPL's ability to maintain its profitability in a volatile price environment will be a key rating sensitivity.

- **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: Adequate

NIPL generated cash accruals of Rs. 7.08 to 13.98 crore during the last three years through 2018-20, while its maturing debt obligations were in the range of Rs. 0.07-0.08 crore per annum. The cash accruals of NIPL are estimated to remain around Rs. 9.78 to 12.88 crore during 2020-22 while its repayment obligations are estimated to be around Rs. 0.41 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 utilized at ~45 percent during the last six months period ended September 2020. NIPL has unencumbered cash and bank balances of Rs. 0.08 crore as on March 31, 2020 (Provisional). NIPL's current ratio stands healthy at 2.33 times as on March 31, 2020 (Provisional). NIPL is not likely to incur any major capex to be funded by external borrowing. Acuité expects NIPL to maintain an adequate liquidity profile over the medium term on account of healthy cash accrual and no major repayments over the medium term.

Rating Sensitivities

- An improvement in the profitability while maintaining the scale of operations
- Any elongation in the working capital cycle will be key a monitorable

Outlook: Stable

Acuité believes that the outlook of the NIPL will remain 'Stable' over the medium term on account of healthy revenue visibility. The outlook will be revised to 'Positive' if the company is able to increase the scale of operations while maintaining healthy profitability. On the contrary, the outlook will be revised to 'Negative' in a case of a sharp decline in the scale of operations and margins leading to deterioration in the liquidity profile of the company.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	725.60	841.27
PAT	Rs. Cr.	13.82	7.35
PAT Margin	(%)	1.90	0.87
Total Debt/Tangible Net Worth	Times	0.63	0.84
PBDIT/Interest	Times	2.65	2.38

Any other information

Not Applicable

Any Material Covenants

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
02-Aug-2019	Channel/Dealer/Vend or Financing	Long Term	49.50	ACUITE BBB/Stable (Reaffirmed)
	Cash Credit	Long Term	15.00	ACUITE BBB/Stable (Assigned)
	Letter of Credit	Short Term	45.00*	ACUITE A3+ (Assigned)
23-May-2018	Channel Financing	Long Term	49.5	ACUITE BBB / Stable (Assigned)

*Interchangeable with CC upto Rs. 7.00 crore

*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 Available	Not Applicable	Not Available	15.00	ACUITE BBB/Stable (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	45.00*	ACUITE A3+ (Reaffirmed)

*Interchangeable with CC upto Rs. 7.00 crore

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About Acuité Ratings & Research:

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