

Press Release

Ispat Damodar Private Limited (IDPL)

May 03, 2019

Rating Assigned



Total Bank Facilities Rated*	Rs. 111.00 Cr.
Long Term Rating	ACUITE BBB-/Stable (Assigned)
Short Term Rating	ACUITE A3 (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) and short term rating of '**ACUITE A3**' (**read as ACUITE A three**) to the Rs.111.00 crore of bank facilities of Ispat Damodar Private Limited (IDPL). The outlook is '**Stable**'.

Ispat Damodar Private Limited (IDPL) was incorporated in 2006 by Mr. Satpal Bansal, Mr. Vikas Bansal and Mr. Arup Majee and is engaged in the manufacture of sponge iron, MS billet and ferro alloys with an installed capacity of 60000 MTPA each. The company also has a 18 MW captive power plant. The manufacturing facility of the company located at Purulia, West Bengal.

Analytical Approach:

Acuité has taken a standalone view of the business and financial risk profile of IDPL to arrive at the rating.

Key Rating Drivers:

Strengths

Experienced management

IDPL, a Kolkata based company was incorporated in 2006 and promoted by Mr. Satpal Bansal, Mr. Vikas Bansal and Mr. Arup Majee. The director possess more than two decades of experience in iron and steel industry through other group entities. The long experience of the promoters has helped the company to establish comfortable relationship with their customers as well as suppliers.

Healthy financial risk profile

The financial risk profile of the company is marked by healthy net worth, comfortable gearing and healthy debt protection metrics. The net worth of the company stands healthy at Rs.155.83 crore in FY2018 as increased from Rs.148.41 crore in FY2017, mainly due to infusion of fresh capital in form of equity and retention of annual profit. The gearing of the company stands comfortable at 0.59 times as on March 31, 2018 when compared to 0.63 times as on March 31, 2017. The total debt of Rs.92.56 crore consist of long term debt of Rs. 7.98 crore, short term debt of Rs.73.74 crore and unsecured loan from promoters of Rs.10.84 crore. The interest coverage ratio (ICR) is healthy and stands at 2.17 times in FY 2018 as against 2.05 times in FY 2017. The debt service coverage ratio also stands comfortable at 1.14 times in FY2018 as against of 1.19 times in FY2017. The net cash accruals against total debt stand comfortable at 0.16 times in FY2018 as compared to 0.15 times in the previous year. The financial risk profile of the company is expected to sustain at comfortable levels over the medium term backed by steady accruals and no major debt funded capex.

Improving revenue and moderate profitability

The company has registered healthy growth in revenues of around 22% in FY 18. Revenues for FY2018 stood at Rs. 326.40 crores as against Rs. 270.39 crores in FY2017. The company has also booked Rs. 389 crore till mid-March 2019 (provisional). Though the scale of operations have reported a compound annual growth rate (CAGR) of about 9.65 per cent over the past two years through FY2018; however, its operating profitability is marginally deteriorating year on year from 10.24 per cent in FY2017 to 8.15 per cent in FY2018 largely owing

to fluctuating raw material prices and realisations. Going forward, Acuité believes that the margins will improve marginally over the medium term backed by expected savings in power costs and economies of scale. The net profitability margin also stands on the lower side at 0.13 per cent in FY2018 as compared to 0.09 per cent in the previous year.

Weaknesses

Working capital intensive nature of operation

The company's operations are working capital intensive in nature as reflected in gross current assets (GCA) of 198 days in 2017-18, declined from 223 days in 2016-17. These high GCA days emanate from high inventory holding period of 111 days in FY2018 as compared to 159 days in FY17. The other current asset of Rs.70.16 crore mainly consists of advance against raw material of Rs. 52.87 crore which also results in high GCA. Company's operations are expected to remain working capital intensive, as the company is engaged in manufacturing sponge iron, MS billet and ferro alloys, which leads to an inventory holding period of around 90-120 days in order to meet the requirement of their regular customers.

Highly fragmented industry

IDPL operates in highly fragmented industry wherein the presence of large number of players in the unorganized sector limits the bargaining power with customers.

Volatility in raw material prices

Margins of the company 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 the revenues and margins of the company.

Liquidity Position:

The company has adequate liquidity marked by healthy net cash accruals of Rs.14.35 crore as against of Rs. 2.09 crore of long term debt obligation in FY2018. The nature of operation of the company is working capital intensive reflected by high gross current asset (GCA) days of 198 in FY 2018. This has led to high reliance on working capital borrowings, the working capital limit in the company remains fully utilised during the last 6 months period ended February 2019. The cash and bank balance was at Rs.0.15 crore as on March 31, 2018.

Outlook: Stable

Acuité believes the outlook on IDPL rated facilities will remain stable over the medium term backed by its experienced management and healthy financial risk profile. The outlook may be revised to 'Positive' in case of significant improvement in its net profitability margins while improving its working capital cycle. The outlook may be revised to 'Negative' in case the working capital cycle of the company gets further stretched or its financial risk profile deteriorates.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	326.40	270.39	271.48
EBITDA	Rs. Cr.	26.61	27.68	27.44
PAT	Rs. Cr.	0.42	0.24	1.24
EBITDA Margin	(%)	8.15	10.24	10.11
PAT Margin	(%)	0.13	0.09	0.46
ROCE	(%)	5.17	5.54	11.07
Total Debt/Tangible Net Worth	Times	0.59	0.63	0.71
PBDIT/Interest	Times	2.17	2.05	1.99
Total Debt/PBDIT	Times	3.44	3.35	3.76
Gross Current Assets (Days)	Days	198	223	251

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.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)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	41.60	ACUITE BBB-/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	23.20	ACUITE BBB-/Stable (Assigned)
Corporate Loan	Not Applicable	Not Applicable	Not Applicable	5.20	ACUITE BBB-/Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	13.70	ACUITE A3 (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	7.30	ACUITE A3 (Assigned)
Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A3 (Assigned)

Contacts:

Analytical	Rating Desk
Pooja Ghosh Head- Corporate and Infrastructure Sector Ratings Tel: 033-66201203 pooja.ghosh@acuite.in Abhishek Dey Rating Analyst Tel: 033-66201208 abhishek.dey@acuiteratings.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in

About Acuité Ratings & Research:

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