

Press Release

H R Ispat Private Limited

D-U-N-S® Number: 87-682-1642



May 20, 2019

Rating Assigned

Total Bank Facilities Rated*	Rs. 50.00 Cr.
Long Term Rating	ACUITE BBB-/Outlook: Stable
Long Term Rating	ACUITE A3

* Refer Annexure for details

Rating Rationale

Acuité has assigned 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. 50.00 crore bank facilities of H R Ispat Private Limited (H R Ispat). The outlook is '**Stable**'.

H R Ispat, a Durgapur (West Bengal) based company was incorporated in 2004 by Mr. K. C. Mondal. The company is currently managed by Mr. K. C. Mondal, Mrs. Shipra Mondal (his wife) and family. The commercial operations began in 2009 and the company was engaged in the production of MS ingots till FY 2016 with an installed capacity of 18000 tpa. H R Ispat started with production of billets from FY 2017 with an expansion in production capacity to 102000 TPA with continuous casting machine (CCM). The company has further expansion plan of commencement of manufacturing of TMT bars.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Long track record of operations along with improved scale of operations**

The promoter of the company, Mr. K C Mondal has been working in the iron and steel industry for more than two decades and is highly experienced and well versed in understanding the demand supply trends of the industry. H R Ispat started its operations in 2009 and is operating in the industry for more than a decade and has been able to build a strong reputation and relationship with its customers in the industry over the years.

The company has reported improvement in scale of operations with operating income of Rs. 192.45 crore for FY 2018 as against Rs. 126.41 crore in the previous year. The improvement in revenue in FY 2018 is mainly on account of enhancement in capacity along with product diversification from ingots to billets. Moreover, H R Ispat has reported revenue growth in FY 2019 with operating income of around Rs. 293.27 crore during April 2018 to March 2019 (Provisional).

- **Healthy financial risk profile**

The company has healthy financial risk profile marked by tangible net worth of Rs. 21.67 crore as on 31 March, 2018 as against Rs. 16.81 crore as on 31 March, 2017. The tangible net worth consists of Rs. 3.30 crore of unsecured loans as on March 31, 2018 which has been subordinated to the bank and has been considered by Acuité as quasi equity. Further, the promoters have infused unsecured loans of Rs. 2.84 crore as on March 31, 2019 (Provisional) which has been subordinated to the bank as well. The gearing stood comfortable at 0.80 times as on 31 March, 2018; an increase from 0.29 times as on 31 March, 2017 due to addition of fresh long term debt obligations and moderate short term debt utilisation as compared to the tangible net worth. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.24 times as on 31 March, 2018. The total debt of Rs. 17.37 crore consist

of short term debt of Rs. 8.85 crore and long term debt of Rs. 8.52 crore as on 31 March, 2018. Interest Coverage Ratio (ICR) stood healthy at 3.50 times for FY 2018 as against 4.01 times in FY2017. Debt Service Coverage Ratio (DSCR) stood moderate at 2.99 times in FY 2018 as against 3.36 times in FY2017 due to fresh long term debt obligations. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.19 times as on 31 March, 2018 as compared to 0.49 times as on 31 March, 2017 which is due to rise in total debt.

- **Efficient working capital operations**

The company's working capital operation is efficient marked by Gross Current Asset (GCA) of 48 days in FY2018 compared to 45 days in FY2017. The GCA days are low mainly on account of well managed inventory days of 24 in FY2018 compared to 29 in FY2017. The debtor days stood comfortable at 9 days in FY2018 as compared to 5 days in FY2017. The working capital intensity is further reflected from moderate bank limit utilisation of ~ 78 per cent of its working capital facilities for 6 months ended March 2019.

Weaknesses

- **Debt funded capex plan**

H R Ispat has undertaken a moderate capex of around Rs. 36.70 crore during FY2018- FY2019 (Prov.) for manufacturing of TMT bars with a capacity of 150000 MT per annum which is expected to cater to mid-range customers through a network of distributors and retailers in West Bengal, initially. The capex is proposed to be funded out of term loan of Rs. 20.75 crore and rest out of internal accruals and promoters' infusion. Timely stabilisation of operations and commensurated ramp-up in revenue and operating profitability, will be a key rating sensitivity.

- **Highly fragmented and competitive industry and susceptibility to volatility in commodity prices**

H R Ispat operates in a highly competitive and fragmented industry with presence of large number of players, thereby putting pressure on capacity utilisation and pricing power. In addition, the industry is reeling under the pressure of cheaper imports. Slowdown in demand and threat of cheaper imports is leading to the industry players piling up inventory or operating at low margins. The operations and profitability of the company are susceptible to volatility in the input prices. The material cost constituted around 73 percent of the total sales for FY 2018 as against 71 percent in the previous year. Any significant changes in commodity prices due to import pressure and over supply would have an impact on margins of the company.

Liquidity Position:

H R Ispat's liquidity profile has been comfortable marked by healthy net cash accruals as against no major maturing debt obligations during FY2016-FY2018. The company generated cash accruals of Rs.1.39-3.31 crore during the last three years through 2017-18, against no major long term debt obligations over the same period. The bank limit in the company remains utilised at ~78 percent during the 6 months period ended March 2019. The company maintains unencumbered cash and bank balances of Rs.0.13 crore as on March 31, 2018. The current ratio of the company stands modest at 1.17 times as on March 31, 2018. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy cash accrual and as against its moderate long term debt repayments over the medium term.

Outlook: Stable

Acuité believes H R Ispat will maintain a 'Stable' outlook over medium term on the back of its long track record of operations. The outlook may be revised to 'Positive' in case the company registers higher than expected growth in revenues and further improvement in financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital requirements, or any significant delay in project commencement leading to subdued cash accruals.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	192.45	126.14	43.90
EBITDA	Rs. Cr.	5.73	3.81	1.33
PAT	Rs. Cr.	1.90	0.97	0.72
EBITDA Margin	(%)	2.98	3.02	3.03
PAT Margin	(%)	0.99	0.77	1.64
ROCE	(%)	14.02	12.16	11.71
Total Debt/Tangible Net Worth	Times	0.80	0.29	0.65
PBDIT/Interest	Times	3.50	4.01	5.76
Total Debt/PBDIT	Times	2.98	1.20	4.18
Gross Current Assets (Days)	Days	48	45	71

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 (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE BBB-/ Stable (Assigned)
Term Loan	Not Applicable	Not Applicable	Not Applicable	20.75	ACUITE BBB-/ Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	3.75	ACUITE A3 (Assigned)
Proposed non fund based facility	Not Applicable	Not Applicable	Not Applicable	5.50	ACUITE A3 (Assigned)

Contacts

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