

Press Release

Shree Rupanadham Steel Private Limited

November 28, 2019



Rating Assigned

Total Bank Facilities Rated*	Rs. 85.00 Cr.
Long Term Rating	ACUITE BBB-/Outlook: Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long-term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) on the Rs. 85.00 crore bank facilities of SHREE RUPANADHAM STEEL PRIVATE LIMITED (SRSPL). The outlook is '**Stable**'.

SRSPL is a part of the Banke Bihari Group based at Chhattisgarh, and was incorporated in 2007 by Mr. Bhola Prasad Agrawal, Mr. Pawan Agrawal, Mr. Harbilash Agrawal Mr. Ajay Agrawal and Mr. Mayank Agrawal. The company is engaged in manufacturing of sponge iron billets and steel ingots.

The company is a part of the business group, hereinafter referred to as Banke Bihari Group comprising of Shree Rupanadham Steel Private Limited and Shree Banke Bihari Ispat Private Limited. Shree Rupanadham Steel Private Limited and Shree Banke Bihari Ispat Private Limited have integrated operations for the manufacturing of sponge iron billets and steel ingots.

Further other than the iron and steel industry the group has strong presence in infrastructure, real estate and other sectors as well via group companies' viz. Shree Banke Bihari Steel & Power Limited, Shree Banke Bihari Infracon Private Limited, Shree Banke Bihari Build-con and Pawan Borewell Service

Analytical Approach

Acuité has considered the consolidated business and financial risk profiles of Shree Rupanadham Steel Private Limited and Shree Banke Bihari Ispat Private Limited together referred to as the 'Banke Bihari Group (BBG)'. The consolidation is due to the common promoters, significant operational and financial synergies within the group. Extent of consolidation: Full.

Key Rating Drivers

Strengths

- **Experienced management and long track record of operations**

BBG is headed by Mr. Bhola Prasad Agrawal, Mr. Pawan Agrawal, Mr. Harbilash Agrawal Mr. Ajay Agrawal and Mr. Mayank Agrawal who are all seasoned professionals in the iron and steel industry, each having an experience of over two decades. The group has an established track record with around two decades of presence in the aforementioned industry. The established track record of operations and rich experience of the promoters has helped the group maintain healthy relationship with their clientele base.

Acuité believes that the group will continue to benefit from its established presence in the aforementioned industry along with the demonstrated track record of the promoter's.

• **Moderate financial risk profile**

The financial risk profile of the group is moderate marked by moderate capitalization levels and healthy debt protection metrics. The net worth of the group increased to Rs.97.87 crore as on 31 March 2019 as against Rs.72.67 crore as on 31 March 2018, supported by healthy accretion in profits. The gearing of the group stood low at 0.25 times as on 31 March 2019 and 0.21 times as on 31 March 2018. Total outside liabilities to total net worth stood low at 0.34 times as on 31 March 2019 as compared to 0.33 times as on 31 March 2018.

The total debt of Rs.24.48 crore consist term loans of Rs.6.09 crore and working capital borrowings of Rs.12.38 crore as on 31 March 2019. The interest coverage ratio (ICR) of the group improved to 15.95 times in FY2019 as compared to 15.51 times in FY2018. The debt service coverage ratio (DSCR) of the group stood healthy at 9.90 times in FY2019 as compared to 9.62 times in FY2018.

Acuité believes that the financial risk profile of BBG will continue to remain moderate over the medium term due to large scale of operations and healthy debt protection measures.

- **Efficient working capital management**

BBG's operations are working capital efficient in nature as reflected by its gross current asset (GCA) days of around 67 days as on March 31, 2019. The debtor collection period of the group improved to 2 days in FY2019 as compared to 14 days in FY2018. The inventory holding period of the group stood at 47 days in FY2019 as against 39 days in FY2018. Further the creditor payback period stood around 6 days as on 31st march 2019.

Acuité expects the operations of the group to remain working capital efficient on account of the high credit period offered to the customers, however the group is in process of implementing a capital expenditure plan of around Rs. 85-90 crores which might impact the liquidity of the firm in short run thus any significant elongation in which may have an impact on the liquidity profile of BBG will entail a negative bias to the rating.

Weaknesses

- **Debt funded capex plan**

BBG has undertaken a capex of Rs.85.00 to 90.00 crores in FY2019 for the manufacturing a power plant with the installed capacity of 12 MW for the in-house energy requirements of the group and a new furnace to boost the installed capacity of the group; it is funded out of term loan of Rs.55.0 crores and rest out of internal accruals and promoter's infusion. Optimal utilization of installed capacity and maintenance of working capital cycle would be key credit metrics to the rating.

- **Competitive industry**

BBG operates in a highly competitive steel long products industry thereby putting pressure on capacity utilization 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 performance of the company is linked to the steel industry which is cyclical in nature as well as end user industries like real estate and construction.

Key Rating Sensitivity Factors

- Significant improvement in revenues while improvement in working capital.
- Significant elongation in working capital due to capital expenditure.

Liquidity Position: Adequate

BBG has adequate liquidity marked by comfortable net cash accruals to maturing debt obligations. The group generated cash accruals of Rs. 17.93 crores during FY2019 against the debt obligation of Rs. 1.53 crores. The cash accruals of BBG are estimated to be in a range of Rs.19.60-25.29 crores against repayment obligations of around Rs.1.55-7.05 crores arising due to capex plan which will be partially debt funded during the period of 2020-22. The cash credit limit of the group remains utilized at around 66.24 per cent during the last twelve months' period ended September 2019. However, BBG's working capital operations has improved in FY2019 marked by significant reduction in Gross Current Asset (GCA) days to 67 in FY2019 from 107 days in FY2018. The group maintains unencumbered cash and bank balances of Rs.0.97 crore as on March 31, 2019.

Outlook: Stable

Acuité believes that BBG will maintain a 'Stable' outlook over the medium term, owing to its promoters' extensive experience in the industry and longstanding operations. The outlook may be revised to 'Positive' in case the group achieves higher than expected sales and profitability, while diversifying its

revenue profile and sustains its capital structure. Conversely, the outlook may be revised to 'Negative' if there is a further deterioration in working capital management leading to higher reliance on external borrowing thereby impacting financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	356.66	177.44	154.66
EBITDA	Rs. Cr.	26.99	12.40	9.08
PAT	Rs. Cr.	14.96	6.81	4.64
EBITDA Margin	(%)	7.57	6.99	5.87
PAT Margin	(%)	4.19	3.84	3.00
ROCE	(%)	23.01	13.40	21.53
Total Debt/Tangible Net Worth	Times	0.25	0.21	0.17
PBDIT/Interest	Times	15.95	15.51	20.75
Total Debt/PBDIT	Times	0.90	1.17	1.02
Gross Current Assets (Days)	Days	67	107	93

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Entities In Manufacturing Sector - <https://www.acuite.in/view-rating-criteria-4.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

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. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB-/Stable (Assigned)
Term Loan	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB-/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB-/Stable (Assigned)
Proposed long term	Not Applicable	Not Applicable	Not Applicable	60.00	ACUITE BBB-/Stable (Assigned)

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About Acuité Ratings & Research:

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