

Press Release

Rukmini Iron Private Limited

April 20, 2017

Rating Reaffirmed

Total Bank Facilities Rated*	Rs.44.34 Cr
Long Term Rating	SMERA BB/Stable (Reaffirmed)

**Refer Annexure for details*

Rating Rationale

SMERA has reaffirmed the long term rating of **'SMERA BB (read as SMERA double B)'** assigned to the Rs.44.34 cr bank facilities of Rukmini Iron Private Limited (RIPL). The outlook is **'Stable'**. RIPL is engaged in the manufacturing and trading of iron billets and TMT bars. It has an installed manufacturing capacity of 40,000 Metric Tonnes (MT) of billets and 30,000 MT of TMT bars at its facility at Haridwar.

The rating reaffirmation takes into account the continued improvement in the operating income on account of the well established distribution network of the company. The rating continues to factor in the modest financial risk profile and improvement in Debt Service Coverage Ratio. The rating remains constrained by the modest debt protection metrics coupled with the moderate profitability metrics.

List of key rating drivers and their detailed description

Strengths:

Continued growth in operating income: Notwithstanding the marked decline in steel prices, RIPL continued to report healthy growth in operating income over the last three years. The rating continues to draw support from the 20 per cent increase in net sales to Rs. 200.96 cr in FY2016 from Rs. 167.69 cr in FY2015 on account of higher capacity utilisation, demand from customers and expansion of the distribution network of the company. SMERA expects growth in RIPL's operating income to continue, supported by its ability to leverage its distribution network across north India.

Efficient working capital management: The rating reaffirmation continues to factor in RIPL's low Gross Current Asset (GCA) days vis-à-vis its industry peers. RIPL maintained low inventory days of 27 in FY2016 (29 in FY2015) while its average collection period improved to 35 days in FY2016 (from 56 days in FY2015). The improvement in working capital cycle is primarily on account of the company's ability to leverage its relationship with its dealers to ensure that maximum sales are on cash basis while inventory procurement is primarily order-backed.

The low GCA days of 88 days in FY2016 (91 days in FY2015) continued to reflect on the comfortable bank limit utilisation (BLU) of 83 per cent for the six months ended December, 2016. SMERA believes that RIPL's ability to maintain an efficient working capital cycle coupled with adequate headroom in its bank lines shall remain a key credit monitorable.

Weaknesses:

Exposure to volatility in steel prices: The rating continues to reflect RIPL's exposure to risks associated with volatility in steel prices. The operating profit margin declined to 4.14 per cent in FY2016 from 4.75 per cent in FY2015 on account of its ability to pass on increase in raw material prices to its customers. SMERA believes that the highly competitive nature of the industry coupled with volatility in steel prices shall continue to weigh down on RIPL's profitability margins.

Modest debt protection metrics: The decline in operating margin resulted in subdued debt protection metrics in FY2016 – marked by a decline in Interest Coverage Ratio to 1.51 times in FY2016 from 1.70 times in FY2015. The Debt Service coverage ratio continued to remain low at 1.07 times in FY2016 (0.65 times in FY2015) on account of high debt servicing obligations of the company.

Notwithstanding improvement in gearing to 2.73 times on 31 March, 2016 (3.15 times on 31 March, 2015), the overall leverage of the company continued to remain high. SMERA believes that RIPL's ability to generate adequate operating cash flows vis-à-vis its overall debt shall remain instrumental in improving its overall credit risk profile.

Analytical approach: SMERA has taken a standalone view of the financial and business risk profile of RIPL.

Applicable Criteria

- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Application of Financial Ratios and Adjustments: <https://www.smera.in/criteria-fin-ratios.htm>
- Default Recognition: <https://www.smera.in/criteria-default.htm>

Outlook: Stable

RIPL is expected to maintain a stable outlook on account of its experienced management and comfortable scale of operations. The outlook may be revised to 'Positive' in case of sustained increase in profitability margins coupled with improvement in Debt-Equity Ratio. Conversely, the outlook may be revised to 'Negative' in case of further decline in debt protection metrics and/or marked increase in gross current asset days.

About the Rated Entity

RIPL was promoted by Mr. Gopi Krishna Kejriwal in 2004 to manufacture iron billets and trade in TMT bars. The company set up an induction furnace with capacity of 18,000 MT per annum at Haridwar to manufacture ingots.

In FY2010, RIPL started a rolling mill (TMT BAR) unit with capacity of 30,000 MT per annum. The current installed manufacturing capacity is 40,000 MT for iron billets.

The company reported net profit of Rs.0.04 cr on operating income of Rs. 200.86 cr in FY2015–16, as against profit after tax (PAT) of Rs. 0.65 cr on operating income of Rs. 167.69 cr in FY2014–15.

Status of non-cooperation with previous CRA (if applicable): Not Applicable

Any other information: N.A.

Rating History for the last three years:

Name of Instrument /Facilities	FY2017			FY2016		FY2015		FY2014	
	Scale	Amount (Rs. Crore)	Rating with Outlook	Date	Rating	Date	Rating	Date	Rating
Cash Credit	LT	40.00	SMERA BB/Stable (Reaffirmed)	19 Jan, 2016	SMERA BB/Stable (Reaffirmed)	02 Feb, 2015	SMERA BB/Stable (Reaffirmed)	28 April, 2014	SMERA BB/Stable (Reaffirmed)
Term Loans	LT	2.67 (Reduced from Rs. 4.34 cr)	SMERA BB/Stable (Reaffirmed)	19 Jan, 2016	SMERA BB/Stable (Reaffirmed)	02 Feb, 2015	SMERA BB/Stable (Reaffirmed)	28 April, 2014	SMERA BB/Stable (Reaffirmed & Assigned)
Proposed Fund Based Facilities	LT	1.67	SMERA BB/Stable (Assigned)	-	-	-	-	-	-
Letter of Credit	ST	-	-	-	-	02 Feb, 2015	SMERA A4+ (Reaffirmed))	28 April, 2014	SMERA A4+ (Reaffirmed))
Proposed Cash Credit	LT	-	-	-	-	02 Feb, 2015	SMERA BB/Stable (Reaffirmed)	28 April, 2014	SMERA BB/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
Cash Credit	N.A	N.A	N.A	40.00	SMERA BB/Stable (Reaffirmed)
Term Loan	N.A	N.A	N.A	2.67	SMERA BB/Stable (Reaffirmed)
Proposed Fund Based Facilities	N.A	N.A	N.A	1.67	SMERA BB/Stable (Assigned)

Note on complexity levels of the rated instrument:
<https://www.smera.in/criteria-complexity-levels.htm>

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ABOUT SMERA

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