

## Press Release

### Rashmi Steels

02 Nov, 2017

### Rating Assigned



<b>Total Bank Facilities Rated*</b>	Rs. 23.50 Cr
<b>Long Term Rating</b>	SMERA BB/Stable (Assigned)

*\*Refer Annexure for details*

### Rating Rationale

SMERA has assigned long-term rating of **'SMERA BB' (read as SMERA double B)** on the Rs. 23.50 crore bank facilities of Rashmi Steels (RS). The outlook is **'Stable'**.

RS, a Mumbai-based proprietorship firm, trades in stainless steel pipes, rods, scrap among others. Established in 2001 by Mr. Babulal Bohra, the firm is part of the Rashmi Group which constitutes Rashmi Tubes (India) and Rashmi International. Both the firms are engaged in the trading of stainless steel pipes, ferrous and non-ferrous metal scrap. Stainless steel pipes, rods and scrap are procured from local steel manufacturers and sold to traders in Maharashtra and Gujarat.

From September, 2015, the firm began manufacturing of aluminium extrusions at Padra, Gujarat with installed capacity of 500 metric tonnes per month. The firm supplies aluminium extrusions to traders.

### List of key rating drivers and their detailed description

#### Strengths:

#### Established track record of operations and experienced promoter:

RS is engaged in the metal trading business since 16 years and has developed long term relations with suppliers and customers. The proprietor, Mr. Babulal Bohra possesses more than three decades of experience in the metal trading industry. Further, as part of its back integration strategy, the firm began manufacturing of aluminium extrusions since September, 2015.

**Moderate financial risk profile:** The financial risk profile of the firm is moderate marked by adjusted networth of Rs. 14.66 crore as on 31 March, 2017 (Provisional) as against Rs. 11.48 crore as on 31 March, 2016. The adjusted gearing ratio stood at 1.70 times as on 31 March, 2017 as against 2.10 times as on 31 March, 2016. The adjusted gearing has been arrived at after considering interest bearing unsecured loan of Rs. 3.98 crore from related parties as quasi equity as the same is subordinated to bank debt. The Interest coverage ratio (ICR) stood at 1.51 times for FY2017 (Provisional) and Debt service coverage ratio (DSCR) stood at 1.05 times. The adjusted total liabilities to tangible networth (TOL/TNW) stood at 2.82 times as on 31 March, 2017 (Provisional) as against 3.26 times in the previous year. The net cash accruals to total debt (NCA/TD) stood at 0.08 times (Provisional) in FY2017 as against 0.07 times in FY2016. Further, SMERA expects the financial risk profile of the firm to improve moderately on account of improvement in the net cash accruals, and repayment of long term borrowings in the absence of major debt funded capex plan.

**Weaknesses:**

**Working capital intensive operations:** The operations are working capital intensive marked by gross current assets (GCA) of 164 days in FY2017 (Provisional) compared to 148 days in FY2016. GCA days are high on account of stretched inventory and debtor days which stood at 79 and 66 days respectively for FY2017. The inventory was high on account of high amount of finished goods. However, same were sold during the first quarter of FY 2017-18. Further, the average cash credit utilisation stood high between ~94.28 per cent for last six months ended August, 2017.

**Low profitability margins:** RS reported operating margin of 5.96 percent for FY2017 (Provisional) as against 5.35 percent in the previous year. However, the net profit margins are thin at 0.94 per cent for FY2017 (Provisional) as against 0.54 per cent in the previous year mainly on account of high interest cost on bank borrowings and unsecured loan.

**Exposure to cyclical in the steel industry, intense competition:** The firm is exposed to the inherent cyclical in the steel industry and the intense competition from established players.

**Risk of capital withdrawal:** The firm is exposed to the risk of capital withdrawal considering its proprietorship constitution.

**Analytical approach:** SMERA has considered the standalone business and financial risk profile.

**Applicable Criteria**

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

**Outlook: Stable**

SMERA believes that the outlook of RS will remain stable owing to its established presence in the metal trading industry and extensive experience of the promoter. The outlook may be revised to 'Positive' if the firm reports significant growth in revenue and profitability along with improvement in its liquidity position. Conversely, the outlook may be revised to 'Negative' in case of decline in net cash accruals, deterioration in the financial risk profile due to higher than expected working capital requirement or major debt funded capex undertaken by the firm.

**About the Rated Entity –Key Financials**

For FY2016-17 (Provisional), RS reported net profit of Rs. 0.95 crore on operating income of Rs. 100.43 crore as against net profit of Rs.0.52 crore on operating income of Rs. 96.53 in the previous year. The net worth stood at Rs. 14.66 crore as on 31 March, 2017 as against Rs.11.48 crore in the previous year.

**Status of non-cooperation with previous CRA (if applicable):** ICRA, vide release dated September 07, 2016 has suspended the ratings of RS on account of lack of adequate information required for monitoring of ratings.

**Any other information:** Not Applicable

**Rating History for the 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. Crore)	Ratings/ Outlook
Cash Credit	N.A	N.A	N.A.	19.50^	SMERA BB/Stable (Assigned)
Term Loan	N.A	N.A	2022	4.00	SMERA BB/Stable (Assigned)

^Includes sublimit of Letter of Credit to the tune of Rs. 4.00 crore

**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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