Rashmi Sponge Iron and Power Industries Pvt Ltd

January 17, 2024

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	59.25	IVR BBB; Stable (IVR Triple B with Stable Outlook)	Revised from IVR BBB+; Stable (IVR Triple B Plus with Stable Outlook)	Simple
Short Term Bank Facilities	15.00	IVR A3+ (IVR A Three Plus)	Revised from IVR A2 (IVR A Two)	Simple
Total	**74.25 (Rupees seventy-four crore and twenty-five lakh only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

Earlier the ratings assigned to the bank facilities of Rashmi Sponge Iron and Power Industries Pvt Ltd (RSIPPL) take cognizance of the close operational & financial linkages between RSIPPL and its group concerns, Agrawal Sponge Private Limited and Vraj Metaliks Pvt Ltd and Infomerics has taken a combined view on these entities referred together as Rashmi Sponge group. However, currently, due to family separation of the promoters, RSIPIPL ceased to be a part of Rashmi Sponge group. Consequently, analytical approach has been changed from combined to standalone. The revision in the ratings considers unavailability of group synergy benefits to RSIPPL and its modest scale of operation in the steel industry. However, the ratings continue to consider experience of the promoters and locational advantage of the plant. Moreover, the ratings also note its stable business performance albeit moderation in profitability and satisfactory financial risk profile marked by healthy capital structure with satisfactory debt protection metrics. However, these rating strengths continues to remain constrained due to volatility in raw material prices, thin profitability, presence in highly competitive & fragmented industry and exposure to cyclicality in the steel industry.

Key Rating Sensitivities:

Upward Factors

- Significant growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals on a sustained basis
- Improvement in the capital structure with improvement in debt protection metrics
- Effective working capital management with improvement in operating cycle and liquidity
  - **Downward Factors**
- Decline in operating income and/or profitability impacting the cash accrual
- Moderation in the capital structure with moderation in in overall gearing to over 2x and/or moderation in interest coverage to below 2x
- Moderation in liquidity position

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced promoters**

The promoters of the Rashmi Sponge Iron and Power Industries Private Limited have more than two decades of experience in the iron and steel industry and actively manage the company's operations. Further, the overall operation is currently looked after by Mr. Manoj Agrawal.

- **Locational advantage**

The manufacturing facility of the company is located in Sitara industrial area in Raipur which is known as steel hub and is in close proximity to various producers of iron ore, coal and manufacturers of sponge iron, pig iron and iron scrap. Further, sourcing of iron ore and coal within state and other adjacent state from nearby coal mines is not an issue. Presence in steel belt reduces the business risk to an extent.

- **Stable business performance albeit moderation in profitability**

The total operating income of the company grew by ~22% y-o-y in FY23 to Rs.276.18 crore from Rs.226.03 crore in FY22 driven by improvement in sales volume and sales realisation. Despite improvement in sales volume and realization, EBITDA margin moderated from 9.53% in FY22 to 7.72% in FY23 due to higher increase in raw material procurement prices. The PAT level and PAT margin has also moderated in FY23 with dip in EBITDA level. PAT margin dampened from 4% in FY22 to 2.91% in FY23. In 9MFY24, the company has achieved a revenue of Rs. 285 crore.

- **Satisfactory financial risk profile marked by healthy capital structure with satisfactory debt protection metrics**

The financial risk profile of the company continues to remain healthy marked by its comfortable capital structure with satisfactory debt protection metrics. Overall gearing of RSIPPL stands comfortable and improved to 0.69x as on March 31, 2023 as against 0.78x as on March 31, 2022. Improvement in capital structure is driven by accretion of profit to reserves and schedule repayment of term debts. The debt protection metrics of the company stands comfortable marked by interest coverage of 2.76x in FY23 as against 2.70x in FY22 driven by decline in finance charges. However, Total debt to EBITDA and Total debt to GCA stood moderate at 3.30x and 6.03 years respectively as on March 31, 2023.

B. Key Rating Weaknesses

- **Susceptibility of profitability to price volatility**

The price of iron ore/ coal which are the main raw materials and finished steel products prices are highly volatile in nature. The company is exposed to the risk of price volatility from the time of procurement of the product till sale of the same. This also exposes the risk of the company's growth and profitability.

- **Presence in highly fragmented industry with low bargaining power**

The iron and steel industry is highly fragmented and competitive with the presence of large number of organised and unorganised players. Intense industry competition coupled with commoditised nature of the products limits the company's pricing flexibility and bargaining power.

- **Exposure to cyclicality in the steel industry**

The steel industry is cyclical in nature and witnessed prolonged periods where it faced a downturn due to excess capacity leading to a downtrend in the prices. However, the outlook for the steel industry in the short to medium term appears to be good with expected robust demand in the domestic markets driven by various government initiatives and expected improvement in the infrastructure and real estate sector. However, any adverse fluctuations in the prices of finished products or any downturn in the steel sector may impact the group adversely.

Analytical Approach: Standalone

Earlier the ratings assigned to the bank facilities of Rashmi Sponge Iron and Power Industries Pvt Ltd (RSIPPL) take cognizance of the close operational & financial linkages between RSIPPL and its group concerns, Agrawal Sponge Private Limited and Vraj Metaliks Pvt Ltd and Infomerics has taken a combined view on these entities referred together as Rashmi Sponge group. However, currently, due to family separation of the promoters, RSIPIPL ceased to be a part of Rashmi Sponge group. Hence, analytical approach has been changed from combined to standalone.

Applicable Criteria:

- Criteria for assigning Rating Outlook
- Rating Methodology for Manufacturing Companies
- Financial Ratios & Interpretation (Non- Financial Sector)
- Criteria on Default Recognition

Liquidity – Adequate

RSIPPL has earned a gross cash accrual of Rs.11.50 crore in FY23. Further the company is expected to earn a gross cash accrual in the range of ~Rs.22.44-33.13 crore as against its debt repayment obligations in the range of ~Rs.4.80 to 5.68 crore during FY24-FY26. Accordingly, the liquidity position of the company is expected to remain adequate in the near to medium term. Further, the average cash credit utilisation of the company remained moderate at ~76% during the past 12 months ended December 2023 indicating adequate liquidity cushion. However, any unplanned capex may affect the liquidity position of the company.

About the Company

Raipur, Chhattisgarh based Rashmi Sponge Iron and Power Industries Limited, incorporated in October 1995 is engaged in manufacturing of sponge iron and billets. The company has an installed capacity of 66000 MTPA for Sponge Iron and 100000 MTPA for Billets capacity. This apart RSIPL also has power plant of 8MW. The manufacturing unit of the company is in Raipur, Chhattisgarh. The company started its operation with sponge iron production and gradually it got integrated through production of billets/ingots.

Financials (Standalone):

(Rs. crore)

For the year ended* / As on	31-03-2022	31-03-2023
	Audited	Audited

For the year ended* / As on	31-03-2022	31-03-2023
Total Operating Income	226.03	276.18
EBITDA	21.55	21.33
PAT	9.06	8.06
Total Debt	73.63	70.50
Tangible Net worth	93.67	102.80
EBITDA Margin (%)	9.53	7.72
PAT Margin (%)	4.00	2.91
Overall Gearing Ratio (x)	0.79	0.69

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: The ratings of Rashmi Sponge Iron and Power Industries Pvt Ltd continue to be classified under Issuer Not Cooperating category by CARE Edge Ratings, Brickworks Ratings and Acuite Ratings as per Press Release dated July 24, 2023, July 25, 2023 and January 09, 2024 respectively, due to unavailability of information.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/ Facilities	Current Ratings (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23 (Nov 09, 2022)	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
1.	Cash Credit	Long Term	59.25	IVR BBB; Stable (IVR Triple B with Stable Outlook)	IVR BBB+; Stable (IVR Triple B Plus with Stable Outlook)	-	-
2.	Letter of Credit	Short Term	15.00	IVR A3+ (IVR A Three Plus)	IVR A2 (IVR A Two)	-	-

Name and Contact Details of the Rating Analyst:

Name: Nidhi Sukhani Tel: (033) 46022266 Email: nsukhani@infomerics.com	Name: Avik Podder Tel: (033) 46022266 Email: apodder@infomerics.com

About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

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Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facilities – Cash Credit	-	-	-	59.25	IVR BBB; Stable
Short Term Bank Facilities – Letter of Credit	-	-	-	15.00	IVR A3+

Annexure 2: List of companies considered for consolidated analysis: Not Applicable.

Annexure 3: Facility wise lender details

https://www.infomerics.com/admin/prfiles/len-Rashmisponge-jan24.pdf

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.