



Press Release

Rashi Steel and Power Limited

September 27, 2023

Rating

Instrument / Facility	Amount (Rs. crore)	Rating	Rating Action	<u>Complexity Indicator</u>
Long Term Bank Facilities (Proposed)	20.00	IVR BBB/Stable (IVR Triple B with Stable Outlook)	Assigned	Simple
Total	20.00 (Rupees Twenty crore only)			

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of Rashi Steel and Power Limited (RSPL) derives strength from extensive experience of its promoter in iron & steel industry and favourable plant location. The rating also considers growth in scale of operations coupled with satisfactory financial risk profile marked by its strong net worth base leading to comfortable capital structure and healthy debt protection metrics. However, these rating strengths remain constrained by exposure to intense competition, fragmented nature of industry and exposure to cyclical in the steel industry.

Key Rating Sensitivities

Upward Factors:

- Significant growth in scale of business with improvement in topline and profitability leading to rise in gross cash accruals on a sustained basis
- Improvement in debt protection metrics

Downward Factors:

- Dip in operating income and/or moderation in profitability impacting the cash accruals and deterioration in debt protection metrics
- Deterioration in the capital structure with moderation in overall gearing ratio to above 1x
- Any significant rise in working capital intensity or unplanned capex leading to a deterioration in the liquidity position

List of Key Rating Drivers with Detailed Description



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Key Rating Strengths

- **Extensive experience of the promoters in the steel industry**

The company's current promoters have extensive experience of more than two decades in the steel industry, which enables it to carry out its operations efficiently. The company will continue to benefit from its promoters' extensive experience and their strong understanding of the market dynamics. Further, the promoter group has sound financial background to support the company in case of need.

- **Favourable location of plant**

RSPL's manufacturing facility is located in Bilaspur, Chattishgarh which is in close proximity to various steel plants, thus facilitates ready market for its finished products.

- **Growth in scale of operations**

Total operating income (TOI) of the company has increased at a CAGR of ~24% from Rs. 265.82 crore in FY21 to Rs.408.05 crore in FY23 (Provisional) driven by supportive demand from several steel units in the near vicinity. Besides, the company also undertakes conversion activities for Prakash Industries Limited on a job work basis which has provided additional support to revenues and profitability of the company. In FY21 and FY22, the company earned exceptional margins supported by buoyancy in the steel market. However, with stabilisation in domestic steel market in FY23 EBITDA margin declined to 8.62% against 21.63% in FY22. The moderation in operating margin in FY23 is also attributed to higher raw material cost particularly coal prices. However, the recent capex is expected to drive profitability of the company. Till August 2023, the company has achieved revenues of ~Rs. 180 crore.

- **Satisfactory financial risk profile marked by comfortable gearing and healthy debt protection metrics**

The company has satisfactory financial risk profile with minimal debt level and strong net worth base. The overall gearing remained comfortable at 0.03x as on March 31, 2023 as against 0.02x as on March 31, 2022. Moreover, Total indebtedness of the company as reflected by TOL/TNW also stood comfortable at 0.19x as on March 31, 2023 (Prov.). The debt protection metrics as indicated by interest coverage ratio and Total debt/GCA stood comfortable at 250.32x in FY23 and 0.23 years as on March 31, 2023 respectively. Infomerics expects the capital structure and debt protection metrics of the company to remain comfortable in the near term with no debt funded capex plans.



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Key Rating Weakness:

- **Susceptibility of profitability to volatility in the prices of raw materials and finished goods**

Major raw-materials required are iron-ore fines and coal for manufacturing of pellets. Raw-material accounted for ~60%-73% of total cost of production in the last three fiscals. The company lacks backward integration for its basic raw-materials (iron ore fines and coal) and has to procure the maximum requirement from open market. Since the raw material is the major cost driver and the prices of which are volatile in nature, the profitability of the company is susceptible to fluctuation in raw-material prices. On the other hand, the finished goods are also volatile and dependent upon economic cycles and global demand supply scenarios.

- **Exposure to high competition and cyclical in the steel industry**

The company faces stiff competition from not only established players, but also from the unorganised sector. Besides, 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.

Analytical Approach: Standalone

Applicable Criteria:

[Rating Methodology for Manufacturing Companies](#)

[Financial Ratios & Interpretation \(Non-financial Sector\)](#)

[Criteria of assigning Rating Outlook](#)

Liquidity Position: Strong

The liquidity position of the company is expected to remain strong in the near to medium term marked by adequate cushion in expected accruals of Rs.34-44 crore as against its



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minimal debt repayment obligations during FY24-26. Further, the promoter group has sound financial background to support the company in case of need.

About the Company

Incorporated on August 28, 2009, Rashi Steel and Power Limited (RSPL) is a Bilaspur, Chhattisgarh based company engaged in manufacturing of pellets with an annual capacity of 400000 tonnes. In August 2020, the previous management of the company was taken over by Mr. Nimish Gadodia, Chairman of Navdurga Group and Mr. Rohit Agrawal of B R Sponge & Power Ltd.

Financials: Standalone

(Rs. crore)

For the year ended* / As On	31-03-2022	31-03-2023
	Audited	Provisional
Total Operating Income	369.77	408.05
EBITDA	79.98	35.17
PAT	53.65	17.68
Total Debt	5.80	6.72
Tangible Net worth	236.81	254.48
EBITDA Margin (%)	21.63	8.62
PAT Margin (%)	14.50	4.32
Overall Gearing Ratio (x)	0.02	0.03

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: NA

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Ratings	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
1.	Cash Credit (Proposed)	Long Term	20.00	IVR BBB/Stable	-	-	-

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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).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

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 / Outlook
Cash Credit (Proposed)	-	-	-	20.00	IVR BBB/Stable



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Total				20.00	
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Annexure 2: List of companies considered for consolidated analysis: Not Applicable

Annexure 3: Facility wise lender details:

<https://www.infomerics.com/admin/prfiles/len-RashiSteel-sep23.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.

