

February 14, 2022

Real Ispat & Power Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund-based working capital limits	40.00	40.00	[ICRA]AA- (Stable); Reaffirmed
Short term – Non-fund based limits	25.00	25.00	[ICRA]A1+; Reaffirmed
Long term / Short term – Unallocated Limit	5.00	5.00	[ICRA]AA- (Stable)/ [ICRA]A1+; Reaffirmed
Short term – Commercial Paper^	25.00	25.00	[ICRA]A1+; Reaffirmed
Total	95.00	95.00	

*Instrument details are provided in Annexure-1; ^Carved out of long-term fund based working capital limits

Rationale

To arrive at the ratings, ICRA has considered the consolidated operational and financial profiles of Real Ispat & Power Limited (RIPL) along with three other Group companies including API Ispat and Powertech Private Limited (API; rated at [ICRA]AA-/Stable and [ICRA]A1+), Ajay Steels Private Limited (ASPL; rated at [ICRA]AA-/Stable and [ICRA]A1+) and Shivalay Ispat and Power Private Limited (SIPPL) because of the managerial, operational and financial linkages among these Group companies. Previously, ICRA also considered Real Power Private Limited (RPPL; name changed to Seeta Energen Private Limited), erstwhile wholly-owned subsidiary of RIPL, for the consolidated rating view. RPPL ceases to be a part of the Group as it was divested by the Group in July 2021. However, the same is unlikely to materially impact the Group's overall credit profile.

The ratings continue to consider the long track record of the Real Group in the steel business as well as the Group's integrated nature of operations with operational linkages among Group companies. Besides, the presence of captive power plants positively impacts the cost structure. ICRA notes the Group's adequate raw material security due to linkages with state-owned miners for procurement of iron ore and coal from mines located in proximity and bulk import of coal through ASPL. The ratings also draw comfort from the Group's robust financial profile, reflected by healthy cash accrual, conservative capital structure as well as strong debt coverage indicators on a consolidated basis. The ratings are, however, constrained by the Group's exposure to the cyclicity inherent in the steel industry. The average steel realisations have remained buoyant in the current fiscal, after a significant increase in FY2021, on the back of a favourable demand outlook which is likely to result in a sizeable growth in the consolidated revenue and strengthen the Group's profits and cash accrual. However, a significant increase in raw material prices is likely to limit the margin expansion to some extent. RIPL, in December 2021, has sold its plant at Urla, Raipur with billet and rolling mill capacities of 60,000 tonne per annum (tpa) each. This will not have any adverse impact on the Group's operation as the capacities at Urla were relatively smaller and remained underutilised because of the absence of any captive power plant at the unit. Additional billet and rolling mill capacities added in API since FY2021 will compensate for the capacity reduction for the sale of Urla unit, at the Group level. ICRA notes that the Group is yet to finalise its sizeable capex plan envisaged earlier but, is likely to embark on a greenfield or brownfield project with a cost outlay of Rs. 150-350 crore in the near term. The Group would remain exposed to the risks associated with execution of the project within the budgeted cost and estimated timeframe. Nevertheless, the capex is likely to result in enhanced backward integration post successful commissioning and plant stabilisation.

The Stable outlook on the [ICRA]AA- rating reflects ICRA's opinion that the Real Group would continue to maintain its business positioning as an established player in the secondary steel industry with an integrated nature of operations. The overall financial risk profile of the Group is likely to remain healthy, despite its plan to embark on a sizeable capex.

Key rating drivers and their description

Credit strengths

Long track record of the Group in steel business – The Real Group has an experience of more than two decades in the steel manufacturing business. Its finished goods brands (GK TMT Rebar and Real Wires) have an established market presence and acceptability among large institutional clients as well as retail consumers. The Group's scale of operation grew consistently over the past few years through inorganic and brownfield expansion. It acquired API in FY2015 and subsequently added significant capacities in RIPL as well as API, which strengthened the Group's market presence.

Integrated nature of operations, with operational linkages among Group companies, and presence of captive power plant positively impact the cost structure – The Group primarily sells TMT bar, wire rod and wire, which are relatively value-added products. The intermediate products (sponge iron and billets) are mainly consumed internally within the Group. The Group's steel-melting operation is highly power intensive. However, power generated from the captive power plants (CPP) at a cheap rate meets a significant portion of the Group's overall power requirement. The Group companies source intermediate materials and power from each other. In addition, a significant portion of the total requirement of non-coking coal of RIPL, API and SIPPL is procured from ASPL, which is involved in trading of imported coal. The vertical integration in operation along with operational linkages among the Group companies positively impact the Group's overall cost structure.

Linkages with raw material suppliers located in proximity and bulk import of coal enhance raw material security – The steel manufacturing facilities of the Group are located in proximity to the sources of key raw materials, iron ore and coal, leading to relatively lower landed cost. The Group has linkages with the National Mineral Development Corporation (NMDC) and the South Eastern Coalfields Limited (SECL) for procurement of iron ore and coal, respectively. The raw material supply linkages result in enhanced raw material security. RIPL, API and SIPPL also consume non-coking coal of higher quality which is imported by ASPL in bulk volumes. A Group company has entered into an agreement with a secondary steel player to manage the latter's operations and procure the sponge iron and billet produced in the plant for three years till June 2023. Given the proximity of the plant to the Real Group's manufacturing facilities, this tie-up will ensure availability of quality raw materials at low landed costs in the near term.

Robust financial profile of the Real Group with healthy cash accrual, conservative capital structure and strong debt coverage metrics – A significant improvement in steel realisations and an increase in sales volume in FY2021 led to a robust growth in the Group's consolidated operating income by 25%. This along with an improvement in the consolidated operating margin to 10.9% in FY2021 from 9.9% in the previous year led to a significant improvement in the Group's consolidated net cash accrual to Rs. 207.0 crore from Rs. 151.8 crore in FY2020. A low debt level and a healthy tangible net worth due to strong accretion to reserves in the recent years led to a low consolidated gearing of the Group (0.1 times over the last three fiscals). The conservative capital structure and healthy profits at an absolute level resulted in strong debt coverage metrics of the Group, as reflected by an interest coverage of 53.4 times, total debt relative to OPBDITA of 0.4 times and net cash accrual relative to total debt of 203% in FY2021 on a consolidated basis.

Improved demand and realisations likely to strengthen the Group's consolidated profits and cash accruals in the current fiscal despite high raw material prices – Steel realisations have continued to rally sharply in the current fiscal after a significant increase witnessed in the previous fiscal. This coupled with an increase in sales volume are likely to result in a substantial growth in the consolidated revenue, profits and cash accrual of the Group in the current fiscal. However, iron ore and coal prices have shot up significantly, increasing the cost of production. This is likely to limit the margin expansion of the secondary steel producers, including the Real Group, despite a buoyancy in realisations. In H1 FY2022, the Group's consolidated operating income grew by 61% on a YoY basis (albeit on a lower base due to the Covid-19 related disruptions in Q1 FY2021), and the consolidated operating margin stood at 11.1% (10.9% in FY2021).

Credit challenges

Exposed to cyclical nature inherent in the steel industry – The steel industry is characterised by its inherent cyclical nature. This is likely to keep the profitability and cash flows of all the players in the industry, including the Real Group, volatile going forward.

Project risks associated with a sizeable capex, however, the capex is likely to enhance backward integration, going forward – The Group earlier planned a greenfield capex of around Rs. 350 crore for setting up an iron ore pellet capacity of 0.8 million

tonnes per annum (mtpa), sponge iron capacity of 0.2 mtpa, ferro alloys of 9 MVA and a captive power plant of 20 MW in Bhatapara, Chhattisgarh on a land already owned by RIPL. However, the Group has not yet decided to execute the entire project. Initially, only the pellet plant (estimated cost of around Rs. 150 crore) may be set up as a brownfield expansion. A term loan of Rs. 100-200 crore may be availed depending on the size of the capex. The capex is unlikely to have any material impact on the Group's capital structure and liquidity, given its healthy net worth and strong cash accruals. Post successful commissioning and stabilisation of the facilities, the capex is likely to enhance backward integration, positively impacting the Group's cost structure. Nevertheless, the Group's ability to execute the project within the budgeted cost and estimated timeframe will remain critical from the credit perspective.

Liquidity position: Strong

The Group's liquidity position is likely to remain **strong**, aided by a healthy cash flow from operations (Rs. 123 crore in FY2021) along with sizeable free cash and liquid investments (around Rs. 112 crore as on March 31, 2021) and absence of any debt repayment obligation as on date. The Group also had sizeable undrawn working capital limits in the recent months, notwithstanding an increase in the working capital requirement due to a rise in the raw material prices and inventory level. The large capital expenditure planned by the Group (yet to be finalised) is unlikely to have an adverse impact on the consolidated liquidity position because the cash accruals are likely to remain healthy.

Rating sensitivities

Positive factors – ICRA may upgrade the long-term rating if the Group's consolidated revenue and cash accrual register a significant growth with sustenance of healthy profit margins and improvement of liquidity.

Negative factors – Pressure on the ratings may arise if deterioration in steel demand and realisations affect the Group's revenues and cash accruals significantly. Sustained deterioration in ROCE below 16% on a consolidated basis may also trigger a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Ferrous Metals Rating Approach - Consolidation
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has consolidated the financials of the Group entities (as mentioned in Annexure-2) given the close business, financial and managerial linkages among them.

About the company

Incorporated in 1999, Real Ispat & Power Limited (RIPL) is a closely held company promoted by the Raipur-based Agarwal family. RIPL has its facilities at Borjhara in Raipur, Chhattisgarh for manufacturing sponge iron (60,000 tpa), mild steel billet (400,000 tpa), thermo-mechanically treated (TMT) bar/wire rod (400,000 tpa) and wire (100,000 tpa), including galvanised (GI) wire (25,000 tpa). In addition, the company has a captive power plant of 13 mega watt (MW). In December 2021, RIPL sold its plant at Urla in Raipur with billet and rolling mill capacities of 60,000 tpa each.

RIPL is the flagship company of the Chhattisgarh-based Real Group. SIPPL is a wholly-owned subsidiary of RIPL, while around 95% equity shares of API are held by RIPL. RIPL holds around 19% share in ASPL, while ASPL has a shareholding of around 15% in RIPL. The Real Group has a total capacity to manufacture sponge iron of 360,000 tpa, mild steel billet of 648,400 tpa, TMT bar/ wire rod of 745,250 tpa, steel wire of 245,250 tpa along with captive power plants of 45.5 MW. In July 2021, the Group sold off RPPL (name changed to Seeta Energen Private Limited), erstwhile the wholly-owned subsidiary of RIPL, having a bio-mass based power plant of 7.5 MW.

Key financial indicators (audited)

RIPL Consolidated [^]	FY2020	FY2021	H1 FY2022*
Operating Income (Rs. crore)	1779.5	2224.8	1,374.4
PAT (Rs. crore)	124.2	171.2	108.0
OPBDIT/OI (%)	9.9%	10.9%	11.1%
PAT/OI (%)	7.0%	7.7%	7.9%
Total Outside Liabilities/Tangible Net Worth (times)	0.2	0.3	-
Total Debt/OPBDIT (times)	0.4	0.4	-
Interest Coverage (times)	30.5	53.4	149.0

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; *Provisional; [^]Includes RPPL's financials till Q1 FY2022

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)			Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2021 (Rs. crore)	Date & Rating in		Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Feb 14, 2022	Apr 8, 2021			
1	Cash Credit	Long Term	40.00	-	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]A+(Stable)	[ICRA]A+(Stable)
2	Letter of Credit	Short Term	25.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1	[ICRA]A1
3	Unallocated Limit	Long/Short Term	5.00	-	[ICRA]AA-(Stable)/[ICRA]A1+	[ICRA]AA-(Stable)/[ICRA]A1+	[ICRA]AA-(Stable)/[ICRA]A1+	-	-
4	Commercial Paper [^]	Short Term	25.00	-	[ICRA]A1+	[ICRA]A1+	-	-	-
5	Bank Guarantee	Short Term	-	-	-	-	-	-	[ICRA]A1
6	Credit Exposure Limit	Short Term	-	-	-	-	-	-	[ICRA]A1
7	Unallocated Limit	Short Term	-	-	-	-	-	-	[ICRA]A1

[^]Carved out of cash credit facility

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term – Fund Based (Cash Credit)	Simple
Short term – Non-Fund Based (Letter of Credit)	Very Simple
Long term / Short term – Unallocated limit	Not applicable
Short term – Commercial Paper	Very Simple

* Carved out of cash credit facility

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or

complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	40.00	[ICRA]AA- (Stable)
NA	Letter of Credit	NA	NA	NA	25.00	[ICRA]A1+
NA	Unallocated Limit	NA	NA	NA	5.00	[ICRA]AA- (Stable)/ [ICRA]A1+
Unplaced	Commercial Paper^	NA	NA	NA	25.00	[ICRA]A1+

Source: Company; ^Carved out of cash credit facility

Annexure-2: List of entities considered for consolidated analysis

Company Name	RIPL Ownership	Consolidation Approach
API Ispat and Powertech Private Limited	95.0%* (rated entity)	Full Consolidation
Shivalay Ispat and Power Private Limited	100.0%	Full Consolidation
Ajay Steels Private Limited	19.2% (rated entity)	Full Consolidation

Source: Company; *As per equity shareholding only, and not considering the preference shares

Note: ICRA has taken a consolidated view of the company with the entities mentioned above while assigning the ratings

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