

June 06, 2017

## Ishwar Metal Industries

Instruments*	Amount Rated (Rs. crore)	Rating Action
Fund-based - Cash Credit	20.00	[ICRA]B+ (Stable); reaffirmed
Fund-based – Term Loan	0.99	[ICRA]B+ (Stable); reaffirmed
Non-fund based – Bank Guarantee/ Letter of Credit	22.50	[ICRA]A4; reaffirmed

*\*Instrument details are provided in Annexure-1*

### Rating action

ICRA has reaffirmed its long-term rating of [ICRA]B+ (pronounced ICRA B plus) on the Rs. 20.99-crore<sup>1</sup> fund-based bank facilities of Ishwar Metal Industries ('IMI' or 'the firm')<sup>2</sup>. ICRA has also reaffirmed its short-term rating of [ICRA]A4 (pronounced ICRA A four) on the Rs. 22.50-crore bank facilities of IMI. The outlook on the long-term rating is 'Stable'.

### Rationale

ICRA's rating reaffirmation takes into account the decline in the operating profitability in the past few years (operating profit margins was 3.69% in FY2017 against operating profit margin of 7.59% in FY2016). Most of the orders executed by IMI do not have price escalation clauses, exposing it to raw material price risk. Further, the ratings also take into account the stretched liquidity position, the increasing debt levels over the years and the negative cash flows. The firm's increasing scale of operations has been mainly debt funded by bank borrowings and unsecured loans from promoters. ICRA's ratings further takes into account the increase in working capital requirements as payments were stuck with debtors, leading to stretched creditor days. The company had a relatively high gearing of 1.72 times as on March 31, 2017 and moderate credit profile due to high interest charges, low profitability and high term loan repayments. The firm's business viability is dependent on its ability to successfully bid for government tenders as it is present in an intensely competitive industry. The ratings also take into account the risks inherent in a partnership firm, such as limited ability to raise equity capital, risk of dissolution and risk of withdrawal. Nevertheless, ICRA draws comfort from the robust growth in revenues in the last two years, which coupled with a strong order book position of Rs. 700 crore, gives medium term revenue visibility to the firm. ICRA also notes the long track record of the promoters' experience and their ability to support the business. IMI's ability to attain healthy revenue growth along with improvement in the profit margins and efficient management of working capital will be the key rating sensitivity.

<sup>1</sup> 100 lakh = 1 crore = 10 million

<sup>2</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

## Key rating drivers

### Credit Strengths

- Experienced management with over two decades of experience in the electronics items and hotel industry
- Growth in turnover and cash accruals in FY2016 and FY2017 on account of favourable demand and increased orders inflow (group<sup>3</sup> turnover stands at Rs. 80.75 crore and Rs. 254.10 crore in FY2016 and FY2017 respectively)
- Strong order book position lends visibility to the revenues going forward
- Diversified product assortment mitigates product concentration risk
- Favourable demand outlook for power transmission infrastructure over the medium-to-long term supported by Government impetus in this sector is likely to result in healthy demand for the group

### Credit Weakness

- Fragmented industry structure characterised by intense competition; given its modest scale of operations and tender-based contracting system, the company has limited bargaining power with its customers
- SEBs constitute more than 50% of the total revenue; thus business certainty is dependent on its ability to successfully bid for government tenders
- Exposure of profitability to adverse fluctuations in raw material prices, particularly iron, steel, aluminium and copper because of absence of price variation clauses
- Stretched liquidity position as evident from the full utilisation of its fund based limits due to high debtor level and negative cash flows
- Weak financial profile marked by low profitability, high gearing, moderate debt protection indicators and low cash accruals

### Description of key rating drivers

IMI has an extensive track record in the manufacturing of substation structures, cables and conductors. The company is a part of the Ishwar Group of Companies, which is present in the electronics and hotel industry. IMI had catered to state discoms of Rajasthan, Haryana, Punjab and Uttar Pradesh in the past. The company also has exposure to project execution risk since the order execution can be affected by delays on behalf of the client, thereby delaying the dispatch and subsequent receipt of payment for the orders. The company draws its business from tender bidding. The company's operating income depends on the order size and the delivery schedule, the availability of funds as well as the capacity, hence it often fluctuates. However, the firm has shown robust growth in revenue on account of healthy order inflows in FY2016 and FY2017. IMI has been successful in getting significant amount of orders from government and private entities in FY2018 and has an outstanding order book of Rs. 703.79 crore. The majority of the orders are for Rajasthan State Electricity Board. The firm is expected to complete these orders within the next two years, providing adequate revenue visibility in the medium term. The company operates in a highly competitive and fragmented industry, which is characterised by the presence of a large number of participants, on account of low entry barriers. This combined with lack of price escalation clauses in most

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<sup>3</sup> Group refers to Ishwar group of companies which includes Ishwar Metal Industries (IMI, rated at [ICRA]B+ (stable) and [ICRA]A4), Ishwar Cables Private Limited (ICPL, rated at [ICRA]B (Stable) and [ICRA]A4), and K S Infra Transmission Private Limited (KSIPL, rated at [ICRA]B (stable) and [ICRA]A4), because of the common management and similar line of business.



of the contracts have led to a decline in operating profit margins over the years. The increase in working capital requirements as a result of increase in turnover has been funded by an increase in the bank borrowings coupled with unsecured loans infused by the promoters. As a result, the capital structure of IMI remains highly leveraged with moderate credit profile. Favourable movement in future ratings hinges on its ability to generate enough liquidity, timely execute orders in hand and sustained improvement in its operating profitability.

### **Analytical approach**

For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

### **Links to applicable criteria**

#### **Corporate Credit Rating Methodology**

### **About the company**

IMI was established in 1985 as a partnership firm by Mr. Rahul Chaudhary and his family. The firm is involved in manufacturing and installation of substation structures, transformer tanks, core clamps, meter pillar boxes, cables and conductors, electronic meters and electric lamination. The manufacturing unit of the firm is located in Jaipur Industrial Area, Rajasthan.

IMI reported an operating income (OI) of Rs. 261.10 crore and a net profit of Rs. 1.02 crore in FY2017 on a provisional basis, as compared to an OI of Rs. 144.49 crore and a net profit of Rs. 0.76 crore in the previous year.

### **Status of non-cooperation with previous CRA**

Not applicable

### **Any other information**

Not applicable

**Rating history for last three years**
**Table: Rating History**

S. No	Name of Instrument	Current Rating			Chronology of Rating History for the Past 3 years			
		Type	Rated amount	Month-year & Rating	Month- year and Rating in			
		(Rs. crore)		June 2017	FY2017	FY2016		FY2015
1	Fund based-Cash Credit	Long-term	20.00	[ICRA]B+ (Stable)	October 2016	July 2015	July 2015	May 2014
2	Fund based-Term Loan		0.99		[ICRA]B+; reaffirmed	[ICRA]B+; reaffirmed/ assigned	[ICRA]B+; revised	[ICRA]BB- (Stable); reaffirmed
3	Non-fund based- Bank Guarantee/ Letter of credit	Short-term	22.50	[ICRA]A4	[ICRA]A4; reaffirmed	[ICRA]A4; reaffirmed/ assigned	[ICRA]A4; reaffirmed	[ICRA]A4; reaffirmed

**Complexity level of the rated instrument**

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

**Annexure-1**  
**Details of Instruments**

<b>Name of the instrument</b>	<b>Date of issuance</b>	<b>Coupon rate</b>	<b>Maturity Date</b>	<b>Size of the issue (Rs. crore)</b>	<b>Current Rating and Outlook</b>
Cash Credit	-	-	-	20.00	[ICRA]B+ (Stable)
Term loan	February 2013	13.75%	December 2017	0.99	
Letter of credit/ Bank Guarantee	-	-	-	22.50	[ICRA]A4

Source: IMI



**For further details, please contact:**

**Analyst Contacts**

**Manish Ballabh**

+91 124 4545 812

[manish.ballabh@icraindia.com](mailto:manish.ballabh@icraindia.com)

**Asmita Pant**

+91 24 4545 330

[asmita.pant@icraindia.com](mailto:asmita.pant@icraindia.com)

**Vipin Jindal**

+91 24 4545 355

[vipin.jindal@icraindia.com](mailto:vipin.jindal@icraindia.com)

**Sabyasachi Majumdar**

+91 124 4545 304

[sabyasachi@icraindia.com](mailto:sabyasachi@icraindia.com)

**Relationship Contacts**

**Jayanta Chatterjee**

+91 80 4332 6401

[jayantac@icraindia.com](mailto:jayantac@icraindia.com)

About ICRA Limited:

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**Registered Office****ICRA Limited**

1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001  
Tel: +91-11-23357940-50, Fax: +91-11-23357014

**Corporate Office****Mr. Vivek Mathur**

Mobile: +91 9871221122

Email: [vivek@icraindia.com](mailto:vivek@icraindia.com)

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002  
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

**Mumbai****Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: [shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

3rd Floor, Electric Mansion  
Appasaheb Marathe Marg, Prabhadevi  
Mumbai—400025,  
Board : +91-22-61796300; Fax: +91-22-24331390

**Kolkata****Mr. Jayanta Roy**

Mobile: +91 9903394664

Email: [jayanta@icraindia.com](mailto:jayanta@icraindia.com)

A-10 & 11, 3rd Floor, FMC Fortuna  
234/3A, A.J.C. Bose Road  
Kolkata—700020  
Tel +91-33-22876617/8839 22800008/22831411,  
Fax +91-33-22870728

**Chennai****Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: [jayantac@icraindia.com](mailto:jayantac@icraindia.com)

5th Floor, Karumuttu Centre  
634 Anna Salai, Nandanam  
Chennai—600035  
Tel: +91-44-45964300; Fax: +91-44 24343663

**Bangalore****Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: [jayantac@icraindia.com](mailto:jayantac@icraindia.com)

'The Millenia'  
Tower B, Unit No. 1004, 10th Floor, Level 2 12-14, 1 & 2,  
Murphy Road, Bangalore 560 008  
Tel: +91-80-43326400; Fax: +91-80-43326409

**Ahmedabad****Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: [shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

907 & 908 Sakar -II, Ellisbridge,  
Ahmedabad- 380006  
Tel: +91-79-26585049, 26585494, 26584924; Fax:  
+91-79-25569231

**Pune****Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: [shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range  
Hills Road, Shivajinagar, Pune-411 020  
Tel: + 91-20-25561194-25560196; Fax: +91-20-  
25561231

**Hyderabad****Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: [jayantac@icraindia.com](mailto:jayantac@icraindia.com)

4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj  
Bhavan Road, Hyderabad—500083  
Tel:- +91-40-40676500