

Radha Madhav Exim Ltd.

December 21, 2017

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based- Working Capital Facilities	0.50	0.50	[ICRA]BBB (SO) (Stable); Reaffirmed
Non-fund Based - Working Capital Facilities	19.50	19.50	[ICRA]A3+ (SO); Reaffirmed
Total	20.00	20.00	

Rating action:

ICRA has reaffirmed a long-term rating of [ICRA]BBB (SO) (pronounced ICRA triple B, Structured Obligation) to the Rs. 0.50-crore fund-based bank facilities of Radha Madhav Exim Ltd. (RMEL or the company). ICRA has also reaffirmed a short-term rating of [ICRA]A3+ (SO) (pronounced ICRA A three plus, Structured Obligation) to the Rs. 19.50-crore¹ non-fund based facilities of Radha Madhav Exim Ltd.². The outlook on the long-term rating is Stable. The letter 'SO' in parenthesis suffixed to a rating symbol stands for Structured Obligation. An 'SO' rating is specific to the rated issue, its terms, and its structure. 'SO' ratings do not represent ICRA's opinion on the general credit quality of the issuers concerned.

Rationale:

ICRA's ratings have been solely based on the strength of the unconditional and irrevocable guarantee provided by Shri Rathi Steel Limited [SRSL, rated CRISIL BBB+ (Stable)/A2]. The ICRA rating addresses the servicing of the rated facilities to happen as per the terms of the underlying loan and the guarantee arrangement. The rating also assumes that the guarantee will be duly invoked, as per the terms of the underlying loan and guarantee agreements, in case there is a default in payment by the borrower. However, the rated instruments do not involve a structured payment mechanism.

However, the ratings are constrained by the continuous decline in RMEL's turnover in the past few years owing to low order inflows as most of the trading is done on a high sea-sale basis. In FY2017, all the sales are made to a single customer, which exposed it to high client-concentration risk. The ratings also note the volatility in foreign exchange rate and the trading nature of the business that have resulted in low margins with operating profit margin (OPM) at 1.39% and net profit margin (NPM) at 0.64% in FY2017. Importantly, the ratings note exposure to counterparty credit risk due to high receivable days that are largely matched for payment being made to its supplier; any inherent gap in the working capital cycle is thus bridged by timely support of the promoters and bank borrowings. Lastly, the ratings are constrained by the company's modest scale of operations, intensely competitive industry and weak coverage indicators.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Outlook: Stable

ICRA believes RMEL will continue to benefit from the guarantee partners. The outlook may be revised to Positive if there is significant improvement in the scale, profitability or coverage indicators of SRSL. The outlook may be revised to Negative if the cash accrual is lower than expected, or if any major capital expenditure, or stretch in the working capital cycle, weakens liquidity of SRSL.

Key rating drivers

Credit strengths

Long track record, experience and network of promoters: RMEL is a part of the Shri Rath Group, which has rich experience in the steel industry. It gets strategic and financial support from the promoters as SRSL has given corporate guarantee to RMEL.

Absence of long-term debt: Total debt mainly comprises interest-free unsecured loans and small amount of working capital borrowings. The company has comfortable capital structure with a gearing of 0.44 times as on March 31, 2017.

Credit challenges

Variable and thin profitability margins: The company's profitability margins have remained quite thin and volatile as inherent in the trading business. It needs to quote competitive rates in order to sustain business with its key customers. The profitability of the company has been volatile as a result of forex variability and other costs due to the fixed-price nature of sales contracts. However, high sea sales of products in USD denominations provide natural hedge to some extent.

High client-concentration risk: RMEL has been doing a major chunk of business with only three to four customers for the past few years. Its counterparty credit risk further increased in FY2017 with 100% of sales being made to only a single customer. The company's business maybe hugely impacted in case it is not able to diversify its customer base in the near future. However, it has well-established relations with its customers for past few years, which mitigate the risk to some extent.

High receivable days: In order to remain competitive in the business, the company has given relaxed credit terms to its customers. This has led to stretched receivable days, which have been largely matched against payments to LCs. Any gap, therefore, needs to be supported by working capital borrowings or timely financial support by promoters.

Intense competition: The industry is highly fragmented with a large number of trading entities given that there are limited entry barriers in terms of capital intensity or technology. Hence, the company faces stiff competition with players trying to secure more business by finer pricing and more liberal credit terms.

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

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Approach for rating debt instruments backed by third-party explicit support](#)

About the company:

Incorporated in January 2009, RMEL commenced its business activities from July 2009. The company is a trading entity involved in the export of machinery, equipment and components of steel plants to overseas companies. It is an integral part of the Shri Rathi Group, the flagship entity of which – SRSL – is involved in manufacturing Thermo Mechanically Treated (TMT) bars. RMEL undertakes high-sea sales of imported goods from a third country (mainly Singapore and other South East Asian countries) and sells them to the UAE and South East Asian countries

In FY2017, the company reported a net profit of Rs. 0.28 crore on an operating income (OI) of Rs. 43.73 crore compared with a net profit of Rs. 0.41 crore on an OI of Rs. 49.88 crore in the previous year.

Key Financial Indicators of SRSL (Guarantor) (Audited)

	FY 2016	FY 2017
Operating Income (Rs. crore)	420.33	449.98
PAT (Rs. crore)	1.70	1.23
OPBDIT/ OI (%)	2.19%	2.09%
RoCE (%)	8.03%	7.06
Total Debt/ TNW (times)	1.75	1.88
Total Debt/ OPBDIT (times)	5.52	6.05
Interest Coverage (times)	2.60	2.70
NWC/ OI (%)	12%	15%

About the guarantor:

SRSL is a closely-held public limited company and manufactures TMT bars. SRSL was promoted in 2003 by Mr. Anil Rathi and the affairs of the company are at present being managed by him and his sons – Mr. Gopal Rathi and Mr. Dhruv Rathi. The company's manufacturing facility is located in the industrial zone promoted by Uttar Pradesh State Industrial Development Corporation (UPSIDC) in Ghaziabad, Uttar Pradesh. In addition to SRSL, the promoters have promoted another company named Shri Rathi Steel (Dakshin) Limited (SRSDL), which is involved in manufacturing TMT bars in its manufacturing facility in Bhiwadi, Rajasthan. The total installed capacity combined for both SRSL and SRSDL is 2, 40,000 metric tonne per annum.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Current Rating (FY2018)				Chronology of Rating History for the past 3 years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2017		Date & Rating in FY2016	Date & Rating in FY2015
				December 2017	February 2017	May 2016	NA	January 2015
1 Cash Credit	Long Term	0.50	NA	[ICRA]BBB (SO) (Stable)	[ICRA]BBB (SO) (Stable)	[ICRA]BBB (SO) (Stable)	NA	[ICRA]BBB (SO) (Stable)
2 Letter of Credit	Short Term	19.50	NA	[ICRA]A3+ (SO)	[ICRA]A3+ (SO)	[ICRA]A3+ (SO)	NA	[ICRA]A3+ (SO)

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

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	0.50	[ICRA]BBB (SO) (Stable)
NA	Letter of Credit	NA	NA	NA	19.50	[ICRA]A3+ (SO)

Source: Radha Madhav Exim Ltd.

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