Real Ispat & Power Limited

December 14, 2018

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Cash Credit	50.00	50.00	[ICRA]A+ (Stable); Upgraded from [ICRA]A (Stable)
Letter of Credit	25.00	25.00	[ICRA]A1; Reaffirmed
Bank Guarantee	1.00	1.00	[ICRA]A1; Reaffirmed
Credit Exposure Limit	0.70	0.40	[ICRA]A1; Reaffirmed
Untied Limit	3.30	0.60	[ICRA]A1; Reaffirmed
Total	**80.00**	**77.00**	

*Instrument details are provided in Annexure-1

Rationale

To arrive at the ratings, ICRA has taken into consideration the consolidated operational and financial profile of the Real Group, which includes Real Ispat & Power Limited (RIPL), API Ispat and Powertech Private Limited (API; rated at [ICRA]A+/Stable and [ICRA]A1), Shivalay Ispat and Power Private Limited (SIPPL) and Real Power Private Limited (RPPL) because of the managerial, operational and financial linkages among these group companies.

The upgrade of the long-term rating mainly considers the robust growth in the consolidated turnover, profits and cash accrual of the Group in FY2018, mainly supported by improved realisations and a significant increase in the scale of operations of API (95% subsidiary of RIPL). The ratings continue to factor in the long track record of the Real Group in the steel business, the integrated nature of operations and presence of captive power plants which positively impact the Group's cost structure. ICRA also notes the Group's adequate raw material security due to linkages with state-owned miners for procurement of iron ore and coal, and the conservative capital structure as well as strong debt-coverage indicators of the Group. The ratings, however, are constrained by the company's exposure to the cyclicality inherent in the steel industry. The recent capacity expansion in RIPL and further expansion in the Group, if any, would remain exposed to risks associated with stabilisation of the facilities, demand scenario and competition.

Outlook: Stable

ICRA believes that RIPL will continue to benefit from the established position of the Real Group in the steel manufacturing business and operational integration among the Group companies. The outlook may be revised to Positive if a significant growth in revenue and profitability, backed by a favourable industry scenario and optimum utilisation of the capacities added in the recent past, strengthens the Group's financial risk profile. The outlook may be revised to Negative if cash accrual is lower than expected, or if any major debt-funded capital expenditure leads to deterioration of capital structure and debt coverage metrics.

Key rating drivers

Credit strengths

Improved realisations and significant increase in scale of operations of the subsidiary, API, led to a robust growth in the consolidated turnover, profits and cash accrual, strengthening the Group's credit profile – In H2 FY2017, API's sponge iron capacity was doubled and a rolling mill was commissioned. An optimum capacity utilisation in FY2018, which was the first full year of operation with the newly added facilities, led to a significant growth in API's scale of operations as well as improved vertical integration at the Group level. This, coupled with a significant improvement in realisations in FY2018 led to a sizeable growth of around 59% in the consolidated operating income of the Group. Moreover, the consolidated operating margin of the Group improved to 15.73% in FY2018 from 12.07% in the previous year, aided by improved realisations and vertical integration. As a result, the Group's consolidated net cash accrual registered a robust growth to around Rs. 167 crore in FY2018 from around Rs. 82 crore in the previous year, strengthening its liquidity position.

Long track record of the Group in the steel business – The Real Group has an experience of nearly two decades in the steel manufacturing business. Its rolled product brand (GK TMT Rebar) has an established market presence and acceptability among large institutional clients. The Group's manufacturing capacity has grown significantly over the last few years through inorganic expansion, strengthening its competitive position.

Integrated nature of operations, with operational linkages among the 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. The Group's steel-melting operation is highly power intensive. However, power generated from the captive power plants 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. The vertical integration in operation along with operational linkages among the Group companies positively impact the Group's overall cost structure.

Proximity to raw material sources and linkages with suppliers enhance raw material security and keep landed costs low – The steel manufacturing facilities of the Group are located in proximity to the sources of key raw materials, iron ore and coal, which lead to low landed cost of the raw materials. The Group has linkage 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 meet a major portion of the Group's overall requirement, resulting in enhanced raw material security.

Conservative capital structure and strong debt coverage metrics, which improved further in FY2018 – Working capital borrowing of the Group declined significantly in FY2018 as the liquidity position became stronger due to sizeable net cash accruals. API also repaid a sizeable amount of unsecured loan availed from promoters and body corporates. The reduced debt level and significant increase in tangible net worth due to strong accretion to reserves led to a decline in the consolidated gearing of the Group to 0.28 times as on March 31, 2018 from 0.74 times in the previous year. Decline in debt level and improved profits also strengthened the consolidated debt coverage metrics of the Group during FY2018, as reflected by the interest coverage of 14.57 times (6.29 times in FY2017), total debt relative to OPBDITA of 0.53 times (1.89 times in FY2017) and net cash accrual relative to total debt of 147% (42% in FY2017). In the current fiscal, the Group has prepaid all the existing term loans, which is likely to further improve the capital structure and debt coverage metrics, unless fresh external borrowings are availed.

Credit challenges

Exposure to cyclicality inherent in the steel industry – The steel industry is characterised by its inherent cyclicality. This is likely to keep the profitability and cash flows of all the players in the industry, including the Real Group, volatile going forward, notwithstanding an improvement in the industry scenario in the recent past.

Recent capacity addition and further expansion, if any, would remain exposed to risks associated with stabilisation of the facilities, demand scenario and competition – In the recent past, RIPL has expanded its steel melting and rolling mill capacities by 150,000 tonne per annum (tpa) each. The Group may also undertake further capital expenditure going forward, given high utilisation level of the existing capacities. Such expansion would remain exposed to the risks associated with stabilisation as per expected operating parameters, demand scenario and competition from other secondary steel producers.

Liquidity Position

The Group's liquidity position remained strong, aided by sizeable net cash accrual and significant undrawn working capital limits. Moreover, all the existing term loans of the Group have been prepaid in the current fiscal, reducing the overall debt service obligation. No major pressure on liquidity is expected to emerge in the near to medium term unless the Group embarks on an aggressive capital expenditure plan.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Entities in the Ferrous Metals Industry
Parent/Group Support	RIPL is the parent company of the Real Group. SIPPL and RPPL are wholly-owned subsidiaries of RIPL, while API is its 95% subsidiary. RIPL has also provided corporate guarantee towards bank facilities availed by its subsidiaries. However, the strength of the corporate guarantees has not been assessed or factored in while assigning the ratings.
Consolidation / Standalone	For arriving at the ratings, ICRA has consolidated the financials of the various 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 Urla and Borjhara in Raipur, Chhattisgarh for manufacturing sponge iron (60,000 tpa), mild steel billet (385,000 tpa), thermo-mechanically treated (TMT) bar/wire rod (370,000 tpa) and wire (100,000 tpa), including barbed wire (3,000 tpa) and galvanised (GI) wire (25,000 tpa). In addition, the company has a captive power plant of 13 mega watt (MW).

RIPL is the parent company of Real Group. SIPPL and RPPL are wholly-owned subsidiaries of RIPL, while API is its 95% subsidiary. The Real Group has the total capacity to manufacture sponge iron of 360,000 tpa, billet of 471,400 tpa, TMT bar/ wire rod of 515,250 tpa, steel wire of 245,250 tpa along with captive power plants of 53 MW.

Key financial indicators (audited)

Consolidated	FY2017	FY2018
Operating Income (Rs. crore)	859.99	1369.41
PAT (Rs. crore)	50.66	141.97
OPBDIT/OI (%)	12.07%	15.73%
RoCE (%)	20.71%	39.97%
Total Debt/TNW (times)	0.74	0.28
Total Debt/OPBDIT (times)	1.89	0.53
Interest coverage (times)	6.29	14.57

Status of non-cooperation with previous CRA:

Name of CRA	Date of Press Release	Rating Action
Brickwork Ratings	July 13, 2018	BWR A-/ BWR A2+ Issuer did not Cooperate; Based on best available information

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2019)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating December 2018	Date & Rating in FY2018 September 2017	Date & Rating in FY2017 March 2017	Date & Rating in FY2016 October 2015
1	Cash Credit	Long Term	50.00	4.82 (August 2018)	**[ICRA]A+ (Stable)**	**[ICRA]A (Stable)**	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**
2	Letter of Credit	Short Term	25.00	-	**[ICRA]A1**	**[ICRA]A1**	**[ICRA]A2+**	**[ICRA]A2+**
3	Bank Guarantee	Short Term	1.00	-	**[ICRA]A1**	**[ICRA]A1**	**[ICRA]A2+**	**[ICRA]A2+**
4	Credit Exposure Limit	Short Term	0.40	-	**[ICRA]A1**	**[ICRA]A1**	**[ICRA]A2+**	**[ICRA]A2+**
5	Untied Limit	Short Term	0.60	-	**[ICRA]A1**	**[ICRA]A1**	**[ICRA]A2+**	**[ICRA]A2+**

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	50.00	[ICRA]A+ (Stable)
NA	Letter of Credit	NA	NA	NA	25.00	[ICRA]A1
NA	Bank Guarantee	NA	NA	NA	1.00	[ICRA]A1
NA	Credit Exposure Limit	NA	NA	NA	0.40	[ICRA]A1
NA	Untied Limit	NA	NA	NA	0.60	[ICRA]A1

Source: Real Ispat & Power Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
API Ispat and Powertech Private Limited	94.97 %	Full Consolidation
Shivalay Ispat and Power Private Limited	100.00%	Full Consolidation
Real Power Private Limited	100.00%	Full Consolidation

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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