

September 16, 2019

Rai Bahadur Seth Shreeram Narsingdas Private Limited: Ratings upgraded to [ICRA]BBB (Stable)/A3+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term Fund Based - Term Loans	19.43	19.43	[ICRA]BBB (Stable); Upgraded from [ICRA]BBB- (Stable)
Long Term Fund-Based Cash Credit	40.00	60.00	[ICRA]BBB (Stable); Upgraded from [ICRA]BBB- (Stable)
Short Term Non Fund-Based Limits	0.50	10.00	[ICRA]A3+; Upgraded from [ICRA]A3
Long term/ Short term unallocated Limits	46.07	16.57	[ICRA]BBB (Stable)/A3+; Upgraded from [ICRA]BBB- (Stable)/A3
Total	106.00	106.00	

*Instrument details are provided in Annexure-1

Rationale

The revision in ratings takes into account a further improvement in RBSSN's capital structure in FY2019 on the back of conversion of unsecured loans worth Rs. 15.6 crore into equity and healthy accruals from the business during the year. In the absence of any major capital expenditure (capex) plans in the near term, ICRA expects the company's gearing and coverage indicators to remain comfortable in FY2020 despite expectation of a moderation in demand from the steel industry. The ratings also favourably factor in RBSSN's foray in the sand manufacturing business, which is likely to gain momentum from Q3 FY2020 and would diversify its revenue stream further. The company's plan to install windmills in FY2021 as a captive power source for its sand manufacturing facility upon achievement of desired operating parameters, would support its profitability from this business. The ratings continue to favourably factor in the low operating cost of RBSSN's beneficiation unit due to its proximity to mines, its captive power sources in the form of windmills and extensive experience of the promoters in the iron ore mining and beneficiation business.

However, the ratings remain constrained by RBSSN's exposure to the cyclical nature of iron ore prices and to the risks arising from operating in a highly regulated iron ore mining industry. The ratings also take into account the working capital intensive nature of the company's operations due to its large inventory levels and stretched receivables. While the company's liquidity position remained adequate as on March 31, 2019, any significant delay in realisation of customer payments can adversely impact the liquidity profile and hence remains a key rating sensitivity. ICRA notes that the company has investments worth Rs. 45.4 crore as on March 31, 2019 in its subsidiary, RBSSN Overseas PTE (RBOP), which is exploring mining opportunities in South East Asia. Any large increase in investment towards this venture can affect RBSSN's financial risk profile and hence remains one of the key rating sensitivities.

The Stable outlook on the [ICRA]BBB rating reflects ICRA's opinion that RBSSN will continue to benefit from the extensive experience of its promoters in iron ore mining and beneficiation business.

Key rating drivers and their description

Credit strengths

Comfortable capital structure and healthy coverage indicators – RBSSN’s capital structure witnessed a further improvement in FY2019 with a gearing of 0.27 time as on March 31, 2019 as against 0.41 time as on March 31, 2018, because of healthy accruals from the business and conversion of unsecured loans worth Rs. 15.6 crore into equity. The coverage indicators also remained comfortable in FY2019 with interest coverage of 20.3 times and total debt-to-operating profit ratio of 0.8 times on account of improved operating profitability. Despite expected moderation in revenues and profitability in FY2020 due to slowdown in demand from the steel sector, RBSSN’s debt levels are likely to remain low in the absence of any major capex during the year and would keep its capital structure and coverage indicators comfortable in the near-to-medium term.

Diversification of revenue mix with entry into sand manufacturing business – RBSSN is in the process of commissioning a stone quarry and crushing plant with a capacity of 0.5 million tonne per annum (MTPA) at Anantapur in Andhra Pradesh. The company will manufacture m-sand and p-sand, which are used in concreting, plastering and other masonry works. The sand manufacturing business will diversify RBSSN’s revenue stream and is likely to gain momentum from Q3 FY2020. To reduce the operating cost of sand manufacturing, RBSSN plans to increase its wind power capacity to 28.2 MW from 23.2 MW in FY2021. Apart from providing diversification in revenues, windmill operations also benefit from generation-based incentives (GBI), which support the company’s overall profitability.

Extensive experience of the promoters in iron ore mining and beneficiation business – Incorporated in 1951 as a partnership firm, RBSSN’s is involved in iron ore mining operations for more than six decades. The company’s mines fall under category-A with good quality of iron ore deposits and hence provide competitive advantage. It also has a beneficiation plant adjacent to these mines, resulting in low operating cost.

Credit challenges

Exposure to the cyclicality of iron ore prices – RBSSN is vulnerable to the fluctuations in the domestic iron ore prices, given the inherent cyclicality associated with the steel sector, which is its only end-user industry. However, the company’s efforts to further diversify its revenue stream are likely to partly mitigate this risk.

Exposure to regulatory risks – RBSSN operates in a highly regulated iron ore mining industry, which exposes it to regulatory risks. The mining output was restricted to 0.193 million tonnes per annum (mtpa) in FY2019 by the central empowered committee due to higher mining production by the company than the permissible limits during the amalgamation process in FY2017. The mining output has been subsequently restored to the earlier permissible limit of 0.244 mtpa in FY2020. The revenue growth of RBSSN is also limited due to capping of beneficiation output at 1.0 MTPA. The company has to necessarily procure iron ore fines from e-auction instead of captive mines for its beneficiation plant, which affects its operating profitability to an extent, especially in a scenario of falling iron ore prices. Cap on the sales of the sub-grade iron ore mined by the company of 0.5 mtpa has also kept RBSSN’s inventory at high levels. Any unfavourable change in the Government’s mining policy may impact its revenue growth and profitability.

Investment in the subsidiary – RBSSN’s investment in RBOP, its Singapore-based subsidiary, remained unchanged in the current year and stood at Rs. 45.4 crore as on June 30, 2019. The investment is towards exploring mining opportunities in South East Asia. Any major increase in the investment quantum could adversely impact RBSSN’s consolidated financial risk profile and would be closely monitored. The company had also planned to enter in the steel metallics business in FY2019, which has been put on hold due to ongoing slowdown in steel demand.

Liquidity position: Adequate

As against a debt repayment of Rs. 4.75 crore in FY2020 and capex requirement of about Rs. 10 crore during the current fiscal, RBSSN had free cash and liquid investments amounting to Rs. 58.56 crore as on June 30, 2019. This, coupled with expected cash accruals from the business, would keep its liquidity profile adequate in the near-to-medium term.

Rating sensitivities

Positive triggers – ICRA could upgrade RBSSN’s rating in case of a sustained uptrend in iron ore realisations and/or, in case the company is able to ramp up its sand manufacturing capacity in a timely manner and demonstrate a healthy capacity utilisation on a sustained basis.

Negative triggers – Negative pressure on RBSSN’s rating could arise in case of elongation in receivables, or sharp slowdown in demand from the steel sector, or in case of a major unanticipated increase in investment/capex quantum leading to a deterioration in liquidity profile. .

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Mining Entities
Parent/Group Support	NA
Consolidation/Standalone	Standalone

About the company

RBSSN was established as a partnership firm in 1951 and its corporate status was changed to a private limited company in 2015. It is involved in iron ore mining activity with its mine located at Hospet, Karnataka. The company also has a beneficiation plant adjacent to the mine with an installed capacity of 1.0 MTPA, and wind power generation units at Karnataka with a total installed capacity of 23.2 MW. In 2017, RBSSN was granted a mining lease for stone quarry at Anantapur, Andhra Pradesh and it plans to commence the sand manufacturing operations in Q3 FY2020. Its overall operations are managed by Mr. Ajay Saraf and his family.

In Q1 FY2020, on a provisional basis, the company reported a profit before tax of Rs. 12.7 crore on an operating income of Rs. 51.5 crore compared to a net profit of Rs. 68.7 crore on an operating income of Rs. 295.5 crore in FY2019.

Key financial indicators (audited)

	FY2018	FY2019	Q1 FY2020 (Provisional)
Operating Income (Rs. crore)	143.6	295.5	51.5
PAT (Rs. crore)	5.4	68.7	12.7*
OPBDIT/OI (%)	12.7%	31.8%	26.4%
RoCE (%)	4.3%	31.2%	17.1%
Total Outside Liabilities/Tangible Net Worth (times)	0.5	0.4	0.3
Total Debt/OPBDIT (times)	4.4	0.8	1.2
Interest Coverage (times)	3.5	20.3	14.3
DSCR	1.7	6.4	5.2

Note*: Profit before tax

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)			Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Rating	FY2019	FY2018	FY2017
					16-Sep-2019	14-Nov-2018	28-Dec-2017	24-Jan-2017
1	Term Loan	Long Term	19.43	12.64*	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)
2	Cash Credit	Long Term	60.00	-	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)
3	Bank Guarantee	Short Term	10.00	-	[ICRA]A3+	[ICRA]A3	[ICRA]A4+	[ICRA]A4+
6	Unallocated	Long Term/ Short Term	16.57	-	[ICRA]BBB (Stable)/A3+	[ICRA]BBB- (Stable)/ [ICRA]A3	[ICRA]BB+ (Stable)/ [ICRA]A4+	[ICRA]BB+ (Stable)/ [ICRA]A4+

Amount in Rs. Crore, * as on June 30, 2019

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 [click here](#)

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	Jan 2014 to Jul 2018	9.0%	Jan 2021 to Jul 2022	12.64	[ICRA]BBB (Stable)
NA	Cash Credit	NA	NA	NA	60.00	[ICRA]BBB (Stable)
NA	Bank Guarantee	NA	NA	-	10.00	[ICRA]A3+
NA	Unallocated	NA	NA	-	16.57	[ICRA]BBB (Stable)/ [ICRA]A3+

Source: RBSSN

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