

Rating Rationale

Brickwork Ratings Upgrades Ratings for the Bank Loan Facilities aggregating ₹ 76.70 Cr of Real Ispat & Power Limited, Chhattisgarh, to 'BWR A-' & 'BWR A2+'

Brickwork Ratings (BWR) has *upgraded* the **Rating**¹ for the Bank Loan Facilities of Real Ispat & Power Limited ('RIPL' or the 'Company'), Chhattisgarh, on a review as follows:

Facility	Present Amount (₹ Cr)	Previous Amount (₹ Cr)	Tenure	Ratings after review ¹	Ratings History
Fund Based Cash Credit	50.00	50.00	Long Term	BWR A - (Pronounced BWR A Minus) Outlook: Stable (Upgraded)	BWR BBB + (Pronounced BWR Triple B Plus) Outlook: Stable May 2015
Non-Fund Based Letter of Credit Bank Guarantee Credit Exposure Limit	25.00 1.00 0.70	25.00 2.00 0.70	Short Term	BWR A2 + (Pronounced BWR A Two Plus) (Upgraded)	BWR A2 (Pronounced BWR A Two) May 2015
Total	76.70	77.70	INR Seventy Six Crores & Seventy Lakhs only		

BWR has essentially relied upon the audited financial results up to FY15, projected financials of FY16, publicly available information and information/clarifications provided by the Company.

The ratings continue to draw comfort from the extensive experience of the promoters in the Steel manufacturing Industry, Company's improving performance, vertical and integrated nature of operations, comfortable liquidity position and healthy plant capacity utilization level. The Company does not have any term debt obligation. The rating is however constrained by current status of the Industry affected by low demand, dumping and volatility in raw material prices.

Background:

Real Ispat & Power Limited, Chhattisgarh was originally established on 4th October, 1999 as a private limited and subsequently reconstituted as a public limited company in the year 2005. RIPL is one of the group companies of Real Group and has set up two plants located at Urla, Raipur to manufacture billet & steel bars and Borjhara, Raipur to manufacture sponge iron, billet, MS ingot, steel bars, wire drawing and power.

¹ Please refer to www.brickworkratings.com for definition of the Ratings

The total capacity of Sponge Iron, Induction furnace, rolling mill and power plant is 60000 MT, 223000 MT, 260000 MT and 13 MW respectively for both the units (Urla and Borjhara).

The major raw materials required are Iron ore and Coal. RIPL have been allotted Iron ore quota from National Mineral Development Corporation (NMDC) from where it procures 100% of its requirement. Coal is procured from South Eastern Coalfields Limited (SECL) under a long term agreement renewed every five years.

RIPL sells its products under the brand name of GK TMT which is well known in the surrounding areas. TMT Bar & Wire rod constitutes almost 94 percent of the total sales of the Company.

RIPL has two subsidiaries Shivalaya Ispat Power Pvt. Ltd (SIPPL) and Real Power Pvt. Ltd (RPPL) which produce sponge iron and power respectively.

The Real Group has acquired another company “API Ispat & Powertech Pvt. Ltd” (API) in September 2014. The acquisition of API is a back-ward integration for RIPL. Currently, RIPL has acquired 47.57% of its stake and remaining deal is expected to complete by the next year.

Shivalaya Ispat Power Pvt. Ltd (SIPPL) was incorporated on 8th February, 2004. The company was initially promoted by Kedia family of Raipur which has now been acquired by RIPL, as its subsidiary w.e.f. 15th August, 2011. SIPPL is now 100 % subsidiary of RIPL. Acquisition of SIPPL is basically a backward integration of Real Ispat & Power Limited. The Company has Sponge Iron plant with a capacity of 90,000 MT and 7.5 MW WHRB Power plant which are entirely consumed by RIPL. In FY14, SIPPL had a turnover of Rs. 175.89 Cr and PAT of Rs. 3.34 Cr.

Real Power Pvt. Ltd (RPPL) has 7.50 MW Biomass based power plant located at village Sargaon, Chattisgarh. The Company was acquired by the Real Group in the year 2009 and is a 100 % subsidiary of RIPL. RPPL utilizes non-conventional source (rice husk) for power generation and has a long term PPA with Chattisgarh State Electricity Board for selling power. In FY14, RPPL had a turnover of Rs. 27.93 Cr and PAT of Rs. 1.76 Cr. RPPL has not availed any bank loan facilities for its operations.

API Ispat & Powertech Private Limited (API) was incorporated on 8th October 2004 and has a set up a unit located at Raipur, Chhattisgarh to manufacture steel and power. The Company has been acquired by the Real Group in September 2014. API has Sponge Iron plant & Induction Furnace with a capacity of 105,000 MT & 86,400 MT, respectively and 15 MW power plant.

Promoters/Board:

The promoters of the Company are Mr. Rajesh Agrawal, Mr. Ramesh Agrawal and Mr. Umesh Agrawal.

Mr. Umesh Agrawal is the co-founder and Managing Director of RIPL. He has more than 20 years of experience in the same business line. He provides overall guidance and technical expertise to daily operations of the Company.

Mr. Ramesh Agrawal is the co-founder and Director of RIPL and has more than 20 years of experience. He looks after marketing arrangement of the Company.

The other key management personnel of the Company is Mr. A.K. Das (AVP-Commercial) who heads the operations of Borjhara unit.

Financial Performance:

RIPL has reported increase in net sales from Rs. 467.28 Cr in FY13 to Rs. 560.09 Cr in FY14 and further to Rs. 638.31 Cr in FY15. Further, Company is able to show net profit of Rs. 12.62 Cr in FY15 against Rs. 9.29 Cr in FY14. However, PAT level fall short of its projections due to change in depreciation method as per the Company's Act 2013

RIPL has a high debt protection metrics with Debt-to-Equity of 0.26 times in FY15 with no term debt obligations. The tangible net worth of the Company has increased from Rs. 166.44 Cr in FY13 to Rs. 183.99 Cr in FY14 and further to Rs. 196.61 Cr in FY15 on account of ploughing back of profits during FY15.

The Company's contingent liability of Rs. 89.10 Cr reflects the corporate guarantee provided by it to the bank loans of its 100% subsidiary, Shivalaya Ispat & Power Pvt. Ltd.

Till August 2015, RIPL has achieved net sales of Rs. 237.72 Cr as against Rs. 260.56 Cr in the corresponding period of FY14.

The Real Group has reported net sales & profit of Rs. 833.11 Cr and Rs. 21.24 Cr, respectively, for FY15, against Rs. 640.70 Cr and Rs. 13.95 Cr, respectively, for FY14.

The Company's Bankers have reported that the credit facilities provided to the Company are serviced promptly and are Standard Assets.

Industry

India is currently the fourth largest producer of steel after China, Japan and the U.S. Growth in this sector is expected to be boosted by new policies in Make in India, import of foreign technology and foreign direct investment (FDI). However, the major constraints is the excess of dumping of steel by China, as the steel imports from China has increased from 1.08 MT in 2013-14 to 2.90 MT in April-Jan 2014-15. These imports have the potential to impact domestic pricing and plant utilization rates significantly if appropriate measures are not taken by the Government.

Rating Outlook

The Real Group has increased its scale of operations by acquiring another company "API Ispat & Powertech Pvt. Ltd" (API) in September 2014. This will help to source the part of Sponge Iron and billets in house and can sell its final products at a competitive rate in the market.

Further, the proposed increment in the capacity has now been implemented in the current financial year.

RIPL, on a standalone performance, has been able to achieve its top line as projected in FY15 despite the not so good industry scenario and further, expects to achieve the projections for FY16. The Company is expected to continue its good performance over the next twelve months. Thus, going forward, the ability of the Company to sustain its growth in topline and profitability, maintain its capital structure and effectively manage its raw material costs would be the key rating sensitivities. RIPL has also reported a large contingent liability of Rs. 89.10 Cr in the form of Corporate Guarantee provided to the bank loans of its 100% subsidiary, Shivalaya Ispat & Power Pvt. Ltd. which is also another crucial rating sensitivity.

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