

## Rating Rationale

### Brickwork Ratings reaffirms 'BWR BBB+' & 'BWR A2' Ratings for the Bank Loan Facilities aggregating ₹ 77.70 Cr of Real Ispat & Power Limited, Chattisgarh.

Brickwork Ratings (BWR) has reaffirmed the **Rating<sup>1</sup>** for the Bank Loan Facilities of Real Ispat & Power Limited ('RIPL' or the 'Company'), Chattisgarh, as follows:

Facility	Present Amount (₹Cr)	Previous Amount (₹ Cr)	Tenure	Ratings after review <sup>1</sup>	Ratings History
<b>Fund Based</b> Cash Credit	50.00	55.00	<b>Long Term</b>	<b>BWR BBB +</b> (Pronounced BWR Triple B Plus)  <b>Outlook - Stable (Reaffirmed)</b>	BWR BBB + (Pronounced BWR Triple B Plus)  Outlook - Stable March 2014
<b>Non Fund Based</b> Letter of Credit Bank Guarantee Credit Exposure Limit	25.00 2.00 0.70	20.00 2.00 0.70	<b>Short Term</b>	<b>BWR A2</b> (Pronounced BWR A Two) <b>(Reaffirmed)</b>	BWR A2 (Pronounced BWR A Two) March 2014
<b>Total</b>	<b>77.70</b>	<b>77.70</b>	<b>(INR Seventy Seven Crores &amp; Seventy Lakhs Only)</b>		

BWR has essentially relied upon the audited financial results up to FY14, provisional financials of FY15 and projected financials up to 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, consistent improvement in topline, vertical and integrated nature of operations having sponge iron & power plants, and, healthy plant capacity utilization level. The Company's liquidity position is comfortable and it does not have any term debt obligation.. The rating is however constrained by moderate scale of operations, current status of the Industry affected by low demand, dumping and low profitability. .

<sup>1</sup> Please refer to [www.brickworkratings.com](http://www.brickworkratings.com) for definition of the Ratings

## **Background:**

Real Ispat & Power Limited, Chattisgarh was originally established on 4<sup>th</sup> 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. 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.

## **Group Background:**

Shivalaya Ispat Power Pvt. Ltd (SIPPL) was incorporated on 8<sup>th</sup> 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. 15<sup>th</sup> 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 ₹ 175.89 Cr and PAT of ₹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 ₹27.93 Cr and PAT of ₹1.76 Cr. RPPL has not availed any bank loan facilities for its operations.

### **Promoters/Board:**

The promoters of the Company are Mr. Umesh Agrawal, Mr. Ramesh Agrawal, Mr. Basant K. Agrawal, Mr. Shiv K. Agrawal and Mr. Ritesh Jindal.

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. Mr. Basant K. Agrawal and Mr. Shiv K. Agrawal, directors, handle overall management and operations of Urla unit and Borjhara unit respectively. Mr. Ritesh Jindal manages the operations of corporate office located at Raipur.

The key management of the Company are Mr. Sudhir Jindal (CFO) who looks after the financial matters of the Company and Mr. A.K. Das (AVP-Commercial) who heads the operations of Borjhara unit.

### **Financial Performance:**

RIPL has reported increase in net sales from ₹420.04 Cr in FY12 to ₹467.28 Cr in FY13 and further to ₹560.09 Cr in FY14 due to demand from the construction activities taking place in Chattisgarh and nearby states. However, Company is able to show net profits primarily due to low depreciation as majority of the value of its fixed assets has been depreciated in the past. RIPL has reported a PAT of ₹9.29 Cr in FY14 against ₹4.46 Cr in FY13.

On a provisional basis, RIPL has reported net sales of ₹638.27 Cr in FY15.

RIPL has a high debt protection metrics with Debt-to-Equity of 0.22 times in FY14 as it has repaid all outstanding term loans in FY14. The tangible net worth of the Company has increased from ₹158.22 Cr in FY12 to ₹166.44 Cr in FY13 and further to ₹183.99 Cr in FY14 on account of ploughing back of profits during FY14. Further, on a provisional basis, tangible net worth of the Company is reported to be ₹201.41 Cr for 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.

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

## Rating Outlook

The Company's performance is expected to be stable over the next twelve months. The ability of the Company to sustain its growth in operations, improve its net margins amidst competition from dumping and other established players, maintain its capital structure and effectively manage its raw material costs would be the key rating sensitivities.

<b>Analyst Contact</b>	<b>Relationship Contact</b>
<a href="mailto:analyst@brickworkratings.com">analyst@brickworkratings.com</a>	<a href="mailto:bd@brickworkratings.com">bd@brickworkratings.com</a>
<b>Phone</b>	<b>Media Contact</b>
<b>1-860-425-2742</b>	<a href="mailto:media@brickworkratings.com">media@brickworkratings.com</a>

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