

Press Release

Ravi Iron Limited

January 12, 2022

Rating Assigned



| Product | Quantum (Rs. Cr) | Long Term Rating | Short Term Rating |
|-------------------|------------------|--------------------------------|-------------------|
| Bank Loan Ratings | 23.00 | ACUITE BB- Stable Assigned | |
| Total | 23.00 | - | - |

Rating Rationale

Acuite has assigned the long-term rating of '**ACUITE BB-**' (read as **ACUITE double B minus**) on the Rs. 23.00 crore bank facilities of Ravi Iron Limited (RIL). The outlook is '**Stable**'.

About the Company

New Delhi based, RIL was incorporated in 1997 by Mr. Ravindra Kumar Garg and his son, Mr. Manu Garg, RIL is engaged in trading of long and flat steel products. Some of the products the company deals in are steel plates, steel bars, rounds and channels. Company also undertakes EPC contracts for installation of solar power plant.

Analytical Approach

Acuite has taken the standalone view of the business and financial risk profile of RIL to arrive at the rating.

Key Rating Drivers

Strengths

>Established track record of operations and experienced management

RIL, promoted by Mr. Ravindra Kumar Garg and his son, Mr. Manu Garg have more than one decade of experience in the said line of business. The extensive experience, coupled with a long track record of operations, has enabled the company to forge healthy relationships with customers and suppliers. Further, the company is the authorised stockist for Steel Authority India Ltd and Rashtriya Ispat Nigam Ltd.

Acuite believes that RIL will sustain its existing business profile on the back of established track record of operations and experienced management.

>Moderate Financial risk profile

The financial risk profile of the company stood moderate marked by moderate net worth and coverage metrics. The net worth of the company stood at Rs. 33.96 crore as on 31 March 2021 as against Rs. 33.66 crore as on 31 March 2020. The gearing (debt-equity) of the company stood at 0.88 times as on 31 March 2021 as against 0.86 times as on 31 March 2020. Total debt of the company stood at Rs. 29.85 crore as on 31 March, 2021 which comprises of short term debt of Rs. 24.56 Cr, long term debt of Rs. 5.26 Cr, USL of Rs. 0.03 Cr. Interest coverage ratio stood moderate at 1.16 times for FY2021 as against 1.13 times for FY2020. Further, debt service coverage ratio stood at 1.12 times in FY2021 as against 1.12 times in FY2020. Debt-EBITDA stood high at 7.21 times for FY2021 as against 8.11 times for FY2020. Acuite expects the company to maintain its financial risk profile in the absence of major debt funded capex plan and moderate working capital requirement.

Weaknesses

>Intensive Working capital operations

Improved yet Intensive working capital requirements as evident from gross current assets (GCA) of 232 days for FY2021 as against 311 days for FY2020. High GCA days are mainly due to inventory days of 152 days as on 31 March 2021 as against 216 days in previous year. Further, the debtor days improved and stood at 70 days as on 31 March 2021 as against 78 days in the previous year, despite the disruption caused by Covid-19 pandemic the company has been able to improve its debtor and inventory position. Current Ratio stood at 1.86 times as on 31 March 2021 as against 2.02 in the previous year.

>Limited bargaining power with key principals and geographical concentration

RIL operations and business performance are highly dependent on the performance of its key principals. Furthermore, limited value addition owing to trading nature of business led to modest operating margin despite revenue increasing. Additionally, RIL's revenue is mainly derived from the NCR region, which exposes geographical concentration. The established dealer network and customer relationships the promoters have helped partly mitigate this risk. Acuité believes that due to limited value addition and low bargaining power, the margins are expected to remain in the similar range over the medium term

>Susceptibility to cyclical nature of industry and competitive nature of industry

The steel consumption is majorly dependent on the economic activities taking place in and around the country. The end user industry being Infrastructure and Real Estate, any significant slowdown in these industries will impact the revenues of steel players. Further, RIL competes with various players in the organized and unorganized segments in the steel trading industry, thus limiting the pricing power.

Rating Sensitivities

>Any stretch in working capital operations leading to a deterioration in its financial risk profile and liquidity.

>Company's ability to grow its topline while maintaining or improving the profitability and liquidity position

Material covenants

None

Liquidity Position: Adequate

The company has adequate long-term liquidity marked by moderate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs. 0.44 crore for FY2021 as against no significant repayment obligations for the same period. The company's operations are working capital intensive as marked by gross current asset (GCA) days of 232 in FY2021. However, the reliance on working capital borrowings were high as the average utilization for fund based facility stood high at 90.66 per cent in the last ten months ending October 2021. The company has unencumbered cash and bank balances of only Rs. 0.07 crore as on 31st March 202. The current ratio of the company stood healthy at 1.86 times as on March 31, 2021.

Outlook: Stable

Acuité believes that RIL will maintain 'Stable' outlook in the medium term on account of experienced management and reputed clientele. The outlook may be revised to 'Positive' if the firm registers higher than expected growth in revenues and profitability while maintaining its liquidity position. Conversely, the outlook maybe revised to 'Negative' in case the firm registers lower than expected growth in revenues and profitability or in case of any stretch in its working capital management leading to a deterioration of its financial risk profile and liquidity.

Key Financials

| Particulars | Unit | FY 21 (Actual) | FY 20 (Actual) |
|-------------------------------|---------|----------------|----------------|
| Operating Income | Rs. Cr. | 128.46 | 81.81 |
| PAT | Rs. Cr. | 0.34 | 0.26 |
| PAT Margin | (%) | 0.27 | 0.32 |
| Total Debt/Tangible Net Worth | Times | 0.88 | 0.86 |
| PBDIT/Interest | Times | 1.16 | 1.13 |

Status of non-cooperation with previous CRA (if applicable)

ICRA, vide its press release dated November 16, 2020 had denoted the rating of Ravi Iron Limited as 'CARE B+; ISSUER NOT COOPERATING' on account of lack of adequate information required for monitoring of ratings.

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Trading Entitle: <https://www.acuite.in/view-rating-criteria-61.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Annexure - Details of instruments rated

| Lender's Name | ISIN | Facilities | Date Of Issuance | Coupon Rate | Maturity Date | Quantum (Rs. Cr.) | Rating |
|------------------|----------------|----------------------|------------------|----------------|----------------|-------------------|--------------------------------------|
| Karur Vysya Bank | Not Applicable | Cash Credit | Not Applicable | Not Applicable | Not Applicable | 21.60 | ACUITE BB- Stable Assigned |
| Not Applicable | Not Applicable | Proposed Cash Credit | Not Applicable | Not Applicable | Not Applicable | 1.40 | ACUITE BB- Stable Assigned |

Contacts

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About Acuité Ratings & Research

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,850 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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