Press Release
Ravi Iron Limited
September 01, 2023
Rating Reaffirmed

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

Rating Rationale

Acuité has reaffirmed 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'.**

Rationale for the Reaffirmation

The rating is reaffirmed considering the stable operating and financial performance of RIL marked by stable operating income, range-bound operating margins and moderate financial risk profile. The operating income of the Company stood at Rs.144.64 Cr in FY2023 (Prov.) as against Rs.174.63 Cr in FY2022 and Rs.128.46 Cr in FY2021. The operating margins remained in the range of 2-3 percent during the same period. The company is engaged in two segments: trading of long and flat steel products and undertaking of EPC contracts for installation of solar power plant. 98-100 percent of the total revenue constituted of income earned from the trading segment during this period. The company plans to increase the contribution of its higher margin generating EPC division in the near to medium term. The rating also derives comfort from the moderate financial risk profile and the experienced management and established track record of the company. However, the working capital intensive nature of operations, stretched liquity position and competitive nature of the industry constrain the rating. Going forward, the Company's ability to diversify its operations while improving its scale of operations and profiltability margins and maintaining its capital structure alongwith restricting elongation of its working capital cycle will remain a key rating monitorable.

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

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

Key Rating Drivers

Strengths

Established t rack record of operations and experienced management

RIL is promoted by Mr. Ravindra Kumar Garg who has more than five decades of experience in the said line of business, along with his son Mr. Manu Garg who also has been associated in this line of business for more than two decades. The extensive experience of the promoters, 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. The Company's operating income stood at Rs.144.64 Cr in FY2023 (Prov.) as against Rs.174.63 Cr in FY2022 and Rs.128.46 Cr in FY2021. The operating margins remained in the range of 2-3 percent during the same period. RIL deals in two segments: trading of long and flat steel products and undertaking of EPC contracts for installation of solar power plant. 98-100 percent of the total revenue constituted of income earned from the trading segment during this period. The company plans to increase the contribution of its higher margin generating EPC division in the near to medium term. In Q1FY2024 the company has generated revenue of Rs. 25.57 Cr. As on June, 2023 the company's trading segment orderbook stood at 14.74 Cr and the EPC segment confirmed orderbook stood for Rs. 12.71 Cr. The company has also bid for another Rs.53.06 Cr for solar plant installation projects as on June, 2023. Acuité believes that RIL's ability to ability to diversify its operations while improving its scale of operations and profiltability margins will remain a key rating monitorable.

Moderate Financial risk profile

The financial risk profile of the company is moderate marked by moderate net worth, comfortable gearing albeit below average debt protection metrics. The net worth of RIL stood at Rs 25.04 Cr as on FY23 (Prov) as against Rs 24.46 Cr as on FY22. The gearing level (debt-equity) stood at 1.30 times as on FY23 (Prov) as against 1.67 times as on FY22. Total outside liabilities to Tangible net worth (TOL/TNW) ratio stood at 1.54 times in FY23 (Prov) as against 2.05 times in FY22. However, the coverage indicators are below-average marked by Interest Coverage Ratio (ICR) of 1.35 times for FY23 (Prov) as against 1.26 times for FY22. Debt to EBITDA of 8.97 time for FY2023 (Prov) as against 10.85 times for FY2022. Acuite believes that financial risk profile of the company may continue to remain moderate over the medium term in absence of any major debt funded capex plan. However, the company's ability to improve the debt protection metrics driven by expected improvement in profitability will remain a key rating monitorable.

Weaknesses

Intensive Working capital operations

The operations of the company are working capital intensive in nature marked by GCA Days of 157 days in the FY23 (Prov) as against 154 days in FY22. Furthermore, the receivables days stood at 24 days in FY23 (Prov) & 32 days in FY22. The average credit period allowed to customers is approx 30 days. The inventory holding days stood at 120 days in FY23 (Prov) & 114 days in FY22. The average inventory holding is 90 – 120 days. The creditor days of the company stood at 7 days in FY23 (Prov) as against 10 days in FY22. Suppliers allow credit period of average 10 - 15 days. The twelve months average fund based bank limit utlisation stood at ~84% for the perod ended June, 2023.

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 cyclicality 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 limitingthe pricing power.

Rating Sensitivities

- Improving its scale of operations and profitability margins while maintaining its capital structure
- Elongation of working capital cycle and deterioration of liquidity position

All Covenants
None

Liquidity Position
Stretched
RIL's liquidity is stretched marked by modest cash accruals against repayment obligations. The company generated cash accruals of Rs. 0.75 Cr and Rs. 0.60 Cr in FY2023 and FY2022 agaisnt repayments made of Rs.1.77 Cr and 1.07 Cr for the same period. The company is expected to generate cash accruals in the range of 1.5-2.5 Cr over the medium term against repayment obligations of Rs. 0.38-2.03 Cr for the same period. The operations of the company are working capital intensive arked by GCA days of 157 days in FY23 (Prov). The twelve months average fund based bank limit utlisation stood at ~84% for the perod ended June, 2023.. The current ratio stood healthy at 2.45 times in FY23 (Prov). The company has unencumbered cash and bank balances of Rs 0.05 Cr as on 31 March 2023 (Prov.).

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 capital structure and working capital cycle. 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.

Other Factors affecting Rating
None

Key Financials

Particulars	Unit	FY 23 (Provisional)	FY 22 (Actual)
Operating Income	Rs. Cr.	144.64	174.63
PAT	Rs. Cr.	0.58	0.50
PAT Margin	(%)	0.40	0.29
Total Debt/Tangible Net Worth	Times	1.30	1.67
PBDIT/Interest	Times	1.35	1.26

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

CRISIL vide its press release dated 29th Apr 2023, had rated the company to CRISIL B+/Stable; Issuer Not Cooperating.

Any other information

None

Applicable Criteria

- Default Recognition :- https://www.acuite.in/view-rating-criteria-52.htm
- Trading Entitie: 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

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite' s categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
20 Mar 2023	Proposed Cash Credit	Long Term	1.40	ACUITE BB- (Issuer not co-operating*)
	Cash Credit	Long Term	21.60	ACUITE BB- (Issuer not co-operating*)
12 Jan 2022	Cash Credit	Long Term	21.60	ACUITE BB- | Stable (Assigned)
	Proposed Cash Credit	Long Term	1.40	ACUITE BB- | Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Karur Vysya Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	20.45	ACUITE BB- | Stable | Reaffirmed
Karur Vysya Bank	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	Simple	2.04	ACUITE BB- | Stable | Reaffirmed
Not Applicable	Not Applicable	Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	0.51	ACUITE BB- | Stable | Reaffirmed

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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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