Press Release

Rassco Steels Limited

August 03, 2020

Rating reaffirmed

Total Bank Facilities Rated	Rs. 17.00 crore
Long Term Rating	ACUITE BB/ Stable (Reaffirmed)

Rating Rationale

Acuité has reaffirmed the long term rating of **'ACUITE BB' (read as ACUITE double B)** on the Rs. 17 crore bank facilities of Rassco Steels Limited (RSL). The outlook is **'Stable'**.

Rassco Steels Limited (RSL) was established in 1990 by Mr. Ashok Kumar Gupta. The company is currently managed by Mr. Nikunj Gupta , Mr. Aditya Gupta and Mr. Ashok Kumar Gupta. It is engaged in trading and supplying of iron and steel products such as MS billet, MS ingots, HR coils, CR coils, TMT bars, rounds and flats. The company procures its products mainly from TATA Steel Limited and Steel Authority of India Limited (SAIL).

Analytical Approach

Acuité has considered the standalone business and risk profile of RSL to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management and long track record of operations**

RSL has been in operations since 1990. The directors of RSL Mr. Aditya Gupta and Mr. Ashok Kumar Gupta have an overall experience of more than three decades in trading of iron and steel products. Acuité believes the long track record has helped RSL to establish a healthy relationship with suppliers and reputed customers and ensure repeat orders.

- **Established relations with suppliers and customers**

The company has built a strong relationship of more than three decades with reputed suppliers, namely TATA Steel Limited and Steel Authority of India Limited (SAIL). Since its inception, the company has been supplying various iron and steel products to reputed customers such as Jupiter Wagons Limited, Rahee Industries Limited, Calcutta Springs Limited, Hindusthan Engineering and Industries Limited, Voestalpine VAE VKN India Private Limited, to name a few. Acuité believes, going forward RSL's healthy and long term relationship with customers and suppliers will support higher revenue visibility over the medium term.

- **Moderate financial risk profile**

The company's moderate financial risk profile is marked by modest net worth, low gearing and moderate debt protection metrics. The net worth of the company improved to Rs.15.12 crores as on as on March 31, 2019 from Rs.14.84 crores as on March 31, 2018 due to retention of profits. Similarly, as on March 31, 2020, net worth increased to Rs 15.49 crores. The debt of Rs.10.66 crore mainly consists of short term debt of Rs.10.41 crores. The company has low gearing at 0.69 times as on March 31, 2020 (Provisional) as against 0.74 times as on March 31, 2019. TOL/TNW (Total Outside Liabilities/Total Net Worth) stood at 0.75 times as on March 31, 2020(Provisional) as compared to 0.80 times as on March 31,2020. The moderate debt protection metrics of the company is marked by Debt Service Coverage Ratio stood at 1.47 times as on FY2020 (Provisional) as compared to 1.33 times as on FY2019 and Interest Coverage Ratio stood at 1.62 times (Provisional) as on FY2020 as against 1.49 times as on FY2019. Going forward, the financial risk profile of the company is expected to remain the same on account of the absence of capital expenditure plan in the medium term.

Weaknesses

• Low profitability margins

The company's operating margin stood low at 1.65 per cent in FY 2020(Provisional) as against 1.41 per cent in FY2019 due to the trading nature of operations. Similarly, profit after tax (PAT) margin stood at 0.56 per cent in FY2020 (Provisional) as compared to 0.37 per cent in FY2019. Acuité believes that the profitability margins of the company would be maintained at similar levels over the medium term due to its limited value addition.

• Working capital intensive operations

The company has working capital intensive operations marked by Gross Current Assets (GCA) of 132 days (Provisional) for FY2020 as against 114 days for FY2019. GCA days have primarily increased due to higher debtor of 112 days for FY2020 (Provisional) as against 94 days for FY2019. The company allows credit period to their customers ranging from 1 to 6 months. The inventory days stood at 19 days in the past two years ended FY2020 (Provisional). However, the bank limit remains utilized at 55 percent over six months ended on June, 2020. Acuite expects the operations of the company to remain working capital intensive as the company maintains high debtor's level.

Rating Sensitivity
• Improvement in profitability margins
• Deterioration in the financial risk profile especially the capital structure

Material Covenants
None

Liquidity Profile: Adequate
The company's liquidity is adequately marked by moderate net cash accruals of Rs.0.41 crore in FY2020 (Provisional) as against maturing obligation of Rs.0.09 crore over the same period. The net cash accruals are expected to be ranging from Rs.0.25 crore to Rs.0.43 crore over the medium term. The current ratio stood comfortable at 2.26 times as on March 31, 2020 (Provisional). The bank limit remains utilized at 55 percent over six months ended on June, 2020. The company has not availed any loan moratorium or additional COVID loan. The unencumbered cash and bank balances stood at Rs.0.03 crore as on March 31, 2020(Provisional). However, the working capital management of the company is high as reflected by Gross Current Assets (GCA) of 132 days in March 31, 2020 (Provisional) as against 114 days in March 31, 2018 Acuité believes that the liquidity of the company will continue to remain adequate supported by moderate net cash accruals.

Outlook: Stable
Acuité believes that RSL will maintain 'Stable' outlook over the medium term from experienced management and reputed clientele. The outlook may be revised to 'Positive' in case the company registers significant improvement in profitability margins and working capital operations. Conversely, the outlook may be revised to 'Negative' in case the company registers lower-than-expected revenue and profitability, leading to affect the accruals and liquidity.

About the Rated Entity - Key Financials

	Unit	FY20(Prov)	FY19 (Actual)
Operating Income	Rs. Cr.	66.61	75.47
PAT	Rs. Cr.	0.37	0.28
PAT Margin	(%)	0.56	0.37
Total Debt/Tangible Net Worth	Times	0.69	0.74
PBDIT/Interest	Times	1.62	1.49

Status of non-cooperation with previous CRA (if applicable)
CRISIL vide its press release dated 18th June, 2020 has mentioned the rating for RSL of 'CRISIL B+/Stable Issuer not cooperating'.

Any other information
Not Applicable

Applicable Criteria
- Trading Entities -https://www.acuite.in/view-rating-criteria-61.htm
- Application of Financial Ratios and Adjustments: https://www.acuite.in/view-rating-criteria-53.htm
- Default Recognition - https://www.acuite.in/view-rating-criteria-52.htm

Note on complexity levels of the rated instrument
https://www.acuite.in/view-rating-criteria-55.htm

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
31-May-2019	Cash Credit	Long Term	17.00	ACUITE BB (Reaffirmed)
28-Mar-2018	Cash Credit	Long Term	17.00	ACUITE BB (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs.) Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	17.00	ACUITE BB/ Stable (Reaffirmed)

Contacts

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About Acuité Ratings & Research:
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