Press Release

Rattan Steel Supply Co.

February 15, 2021

Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 11.25 Cr.
Long Term Rating	ACUITE B+/Stable (Reaffirmed)
Short Term Rating	ACUITE A4 (Reaffirmed)

** Refer Annexure for details*

Rating Rationale

Acuité has reaffirmed the long term rating of **'ACUITE B+' (read as ACUITE B plus)** and short term rating of **'ACUITE A4' (read as ACUITE A four)** on the Rs.11.25 crore bank facilities of Rattan Steel Supply Co.(RSSC). The outlook is **'Stable'**.

Rattan Steel Supply Co. (RSSC) was established in the year of 1967 as a proprietorship concern and reconstituted as a partnership firm in 1980. Currently, the day to day operation is managed by Mr. Ajay Gupta, partner. The firm is engaged in trading and supplying of alloy steel and mild steel. It is located in Kolkata.

Analytical Approach:
Acuité has considered the standalone business and financial risk profile of RSSC to arrive at the rating.

Key Rating Drivers:
Strengths

Long track record of operation and experienced management
Established in 1967, the firm has a track record of more than four decades. The partner, Mr. Ajay Gupta has experience of more three decades in the trading of alloy steel and mild steel. Acuité believes longstanding experience of management and the long track record of operations have helped the firm to establish a healthy relationship with its customers and suppliers.

Moderate scale of operation and steady profitability margin
Though the firm has started operation since 1967, the revenue stood moderate at Rs.36.68 crore in FY2020 as compared to Rs.38.66 crore in the previous year. The firm has achieved Rs.20.31 crore till 31st December 2020 (Provisional). The marginal improvement in revenue is on account of increase in the price of their raw materials during the period. The ability of the firm to scale up its operations will remain a key monitorable going forward.

The operating margin of the firm has declined marginally in FY2020 at 5.07 per cent as compared to 5.49 per cent in the previous year. The net profitability margin of the firm has also declined marginally to 0.63 per cent in FY2020 as compared to 0.77 per cent in the previous year.

Weaknesses

Average financial risk profile
The financial risk profile of the firm is marked by low net worth, moderate gearing and moderate debt protection metrics. The net worth of the firm stood low at Rs.12.29 crore in FY 2020 as compared to Rs 12.13 crore in FY2019. This improvement in networth is mainly due to the retention of current year profit. Acuité has considered Rs.4.50 crore of unsecured loan as quasi capital as the same amount is subordinated with the bank debt. The gearing of the firm stood moderate at 1.60 times as on March 31, 2020 when compared 1.11 times as on March 31, 2019. The total debt of Rs.19.70 crore consists of mainly short term debt form the bank of Rs.18.41 crore, unsecured loan form promoters of Rs.1.14 crore and long term debt of Rs.0.16 crore. Interest coverage ratio (ICR) is moderate at 1.20 times in FY2020 and in FY 2019, respectively. The total outside liability against tangible networth (TOL/TNW) of the firm stood moderate at 1.70 times in FY2020 as against of 1.72 times in FY2019. The net cash accruals to total debt (NCA/TD) stood low at 0.02 times in FY2020 as compared to 0.03 times in FY2019. Going forward, Acuité believes the financial risk profile of the firm will remain average on account moderate cash accruals and no major capex plan.

Working capital intensive nature of operation

The working capital intensive nature of operation of the firm is marked by high Gross Current Asset (GCA) days of 300 days in FY2020 as compared to 306 days in the previous year. The high GCA days are on account of high receivables days of 190 days in FY2020 as compared to 169 days in the previous year. This increase in debtor days is mainly due to receivables during the year-end, which coincided with the nation-wide lockdown. The inventory days of the firm has improved but still stood at high at 99 days in FY2020 as against 117days in the previous year.

Rating Sensitivity

- Scaling up of operations while maintaining their profitability margin
- Deterioration in the capital structure
- Working capital management

Material Covenant

None

Liquidity Position: Stretched

The firm has stretched liquidity marked by low net cash accruals of Rs.0.33 crore as against nil long term debt obligations. The cash accruals of the company are estimated to remain in the range of around Rs. 0.28 crore to Rs. 0.81 crore during 2021-23 against Rs. 0.50 crore in FY2022 and Rs.0.66 crore in FY2023 of long term debt obligation respectively. The working capital management of the firm is marked by Gross Current Asset (GCA) days of 300 days in FY2020. The bank limit of the firm has been ~91 percent utilized during the last six months ended in January 2021. Moreover, the firm has also been sanctioned covid emergency of Rs.2.00 crore. The said loan is to be repaid over a period of 4 years including 1 year of moratorium. The firm has also availed the loan moratorium till August 2020 for cash credit. However, the current ratio of the firm also stood comfortable at 1.67 times in FY2020. Acuité also believes that the liquidity of the firm is likely to remain stretched on account of low cash accruals against long debt repayments over the medium term.

Outlook: Stable

Acuité believes RSSC will continue to benefit over the medium term from its long track record of operation. The outlook may be revised to ‘Positive’ in case the firm registers higher-than-expected growth in revenues while achieving sustained improvement in profit margins and financial risk profile. Conversely, the outlook may be revised to ‘Negative’ in case the firm fails to achieve the projected revenues, or in case of further deterioration in the firm’s financial risk profile.

About the Rated Entity - Key Financials (Standalone)

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	39.68	38.66
PAT	Rs. Cr.	0.25	0.30
PAT Margin	(%)	0.63	0.77
Total Debt/Tangible Net Worth	Times	1.60	1.11
PBDIT/Interest	Times	1.20	1.20

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition –https://www.acuite.in/view-rating-criteria-52.htm
- Trading Entities – https://www.acuite.in/view-rating-criteria-61.htm
- 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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings / Outlook
20-Nov-2019	Cash Credit	Long Term	11.00	ACUITE B+/Stable (Reaffirmed)
	Bill Purchase	Short Term	0.25	ACUITE A4 (Assigned)
12-Jul-2019	Cash Credit	Long Term	11.00	ACUITE B+/Stable (Reaffirmed)
04-May-2018	Cash Credit	Long Term	11.00	ACUITE B+/Stable (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	Note Applicable	Note Applicable	Note Applicable	11.00	ACUITE B+/Stable (Reaffirmed)
Bill Purchase	Note Applicable	Note Applicable	Note Applicable	0.25	ACUITE A4 (Reaffirmed)

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About Acuité Ratings & Research:
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