

Press Release

Renny Steels

July 25, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 25.50 Cr.
Long Term Rating	ACUITE BB+ / Outlook: Stable
Short Term Rating	ACUITE A4+

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BB+**' (**read as ACUITE BB plus**) and short term rating of '**ACUITE A4+**' (**read as ACUITE A four plus**) on the Rs. 25.50 crore bank facilities of Renny Steels. The outlook is '**Stable**'.

Established in 2006, Renny Steels is a partnership firm promoted by Mr. Ravinder Malik and Ms. Prabha Malik. The firm is engaged in manufacturing of iron and steel ingots; round, flat, hexagonal bars from iron scrap and rounds, squares from steel. The firm procured raw materials from Delhi and Himachal Pradesh and sells its products to customers based in Delhi, Haryana and Punjab. The firm has its manufacturing unit located at Baddi (Himachal Pradesh) with an installed capacity of 23,700 MTPA.

Key Rating Drivers

Strengths

- **Experienced Management**

Established in 2006, Renny Steels has track record of operations for 11 years in steel industry and the promoters have gained experience through managing the firm since inception. Acuité believes that the firm will be benefited over the medium term on the back of established track record and experienced management.

- **Moderate financial risk profile**

The financial risk profile is moderate marked by tangible net worth of Rs.27.96 crore as on 31 March, 2018 (Provisional) as against Rs.25.83 crore in the previous year. The net worth includes unsecured loans of Rs.3.00 crore as on 31 March, 2018 (Provisional) from promoters. Hence, Acuité has treated them as quasi-equity. The gearing stood at 1.03 times on 31 March, 2018 (Provisional) as against 1.09 times in the previous year. The total debt of Rs.28.75 crore includes term loans from bank of Rs.2.82 crore and working capital funds of Rs.25.93 crore. Interest Coverage Ratio (ICR) stood at 1.82 times for FY2018 (Provisional) as against 1.76 times in FY2017. The total outside liabilities to tangible net worth (TOL/TNW) stood at 1.27 times as on 31 March, 2018 (Provisional) as against 1.45 times in the previous year. The net cash accruals to total debt (NCA/TD) stood at 0.10 times in FY2018 compared to negative 0.09 times in FY2017. Going forward, Acuité expects the firm to maintain its financial risk profile in the absence of major debt funded capex plan.

Weaknesses

- **Exposed to fluctuations in raw material prices**

The major raw material of the firm is iron and steel. The prices of the same are fluctuating in nature, therefore, the operating profit margins of the firm is susceptible to raw material price fluctuation.

- **Stagnant Revenues**

The firm operates on a scale with stagnant revenue in FY2017-18 (Provisional) at Rs.106.78 crore compared to Rs.105.94 crore in FY2016-17 and Rs.104.06 crore in FY2015-16. This is on account of the firm operating in a highly fragmented and competitive steel industry along with slowdown in demand for the firm's products and presence of several organised and unorganised players limiting its bargaining power with customers.

- **Working capital intensive nature of operations**

The operations of the firm are working capital intensive in nature marked by Gross Current Asset (GCA) days of 174 for FY2018 (Provisional) and 179 in FY2017. The GCA days are high on account of high debtors of 126 days in FY2018 (Provisional) and 127 Days in FY2017. The liquidity position of the firm is moderate as the cash credit limit is fully utilised during the last six months ended 30 April, 2018.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the Renny Steels to arrive at this rating.

Outlook: Stable

Acuité believes that the outlook on Renny Steel will remain 'Stable' over the medium term on account of its promoter's extensive experience and established operational track record. The outlook may be revised to 'Positive' in case the firm maintains its financial risk profile and profitability while effectively managing its liquidity position. Conversely, the outlook may be revised to 'Negative' in case of decline in net cash accruals, deterioration in the financial and liquidity profile due to higher than envisaged working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	106.78	105.94	104.06
EBITDA	Rs. Cr.	6.27	5.87	5.41
PAT	Rs. Cr.	1.90	1.88	1.89
EBITDA Margin	(%)	5.87	5.54	5.19
PAT Margin	(%)	1.78	1.78	1.81
ROCE	(%)	9.74	10.07	19.21
Total Debt/Tangible Net Worth	Times	1.03	1.09	1.02
PBDIT/Interest	Times	1.82	1.76	1.85
Total Debt/PBDIT	Times	4.53	4.76	4.66
Gross Current Assets (Days)	Days	174	179	179

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

None

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	25.04	ACUITE BB+ / Stable (Assigned)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	0.46	ACUITE A4+ (Assigned)

Contacts

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About Acuité Ratings & Research:

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