

Press Release

Renny Steels

October 07, 2019



Rating Downgraded and Reaffirmed

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

* Refer Annexure for details

Rating Rationale

Acuité has downgraded long-term rating to '**ACUITE BB**' (**read as ACUITE double B**) from '**ACUITE BB+**' (**read as ACUITE double B plus**) and reaffirmed 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**'.

The downgrade reflects stagnant operating levels and negative profitability. Operating income in FY2019 (Provisional) stood at Rs.109.03 crore as against Rs.107.40 crore in FY2018. Operating margins fell from 6.14 per cent in FY2018 to (1.46) per cent in FY2019. This decline was due to writing-off of bad debts of Rs. 8.59 crore. Negative profitability has deteriorated the financial risk profile and adversely impacted the liquidity of the business.

Renny Steels (RS) was established in 2006 as a partnership concern, and is promoted by Mr. Ravinder Malik and Mrs. 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 procures its raw materials from Delhi and Himachal Pradesh and sells its products to its customers based in northern region of the country. The firm has its manufacturing unit located in Baddi (Himachal Pradesh) with a production capacity of 23,700 MTPA.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

Renny Steels was established in 2006, which gives the firm more than a decade of experience in the steel industry. The Promoters of the firm, Mr. Ravinder Malik and Mrs. Prabha Malik, have more than one decade of experience in the said industry that has enabled them to maintain healthy relations with its customers as well as with its suppliers. Acuité believes that the promoters' experience and healthy relations with its customers and suppliers will continue to benefit RS over the medium term.

Weaknesses

- **Working capital intensive nature of Operations**

Firm's working capital cycle is intensive managed by Gross Current Asset (GCA) of 160 days in FY2019 (Provisional) as compared to 185 days in FY2018. This is on account of debtors' collection period of 89 days in FY2019 (Provisional) as against 126 days in FY2018 and inventory holding period of 55 days in FY2019 (Provisional) as against 48 days in FY2018. However, current ratio of the firm stood moderate at 1.45 times as on 31 March, 2019 (Provisional).

- **Average financial risk profile**

RS has average financial risk profile marked by moderate net worth, average debt protection metrics and high gearing. The net worth of the firm has deteriorated to Rs.19.27 crore as on 31 March, 2019 (Provisional) as against Rs. 25.03 crore as on 31 March, 2018 on account of negative profitability. The gearing level (debt-equity) stood stable at 1.70 times as on 31 March, 2019 (Provisional) as against 1.27 times as on 31 March, 2018. The total debt of Rs.32.73 crore as on 31 March, 2019 (Provisional)

consists of long term debt of Rs. 4.64 crore, unsecured loans of Rs. 2.55 crore and working capital borrowings of Rs.25.54 crore.

The interest coverage ratio (ICR) stood at (0.43) times in FY2019 (Provisional) as against 1.91 times in FY2018. NCA/TD (Net Cash Accruals to Total Debt) ratio stood at (0.16) times in FY2019 (Provisional) and 0.10 times in FY2018.

Acuité believes that the financial risk profile of the firm is expected to remain average backed by average net cash accruals and in absence of any major debt funded capex in near to medium term.

• Susceptibility of operating margin to volatility in raw material prices

Major raw material for the firm is iron and steel and its by-product. Prices of steel are volatile in nature, which makes operating margins of the firm susceptible, so any price hike in the commodity prices shall adversely impact the business.

Rating Sensitivity

- Improvement in the operating levels.
- Timely recovery from the customers
- Significant improvement in the operating margins within the range of (6-8 per cent)

Material Covenants

None

Liquidity Profile

The firm has adequate liquidity marked by average net cash accruals to its maturing debt obligations. RC generated cash accruals of Rs. 6.17 crore in FY2019 (Provisional) against debt obligations of Rs. 0.05 crore for the same period. The cash accruals of the firm are estimated to remain in the range of around Rs. 6.78 crore to Rs. 7.68 crore during FY2020-22 against repayment obligations of Rs. 0.05 crore for the same period. The firm's working capital operations are efficient marked by gross current asset (GCA) days of 71 days in FY2019 (Provisional). The firm maintains unencumbered cash and bank balances of Rs.0.02 crore as on 31 March, 2019 (Provisional). The current ratio stands at 1.87 times as on 31 March, 2019 (Provisional). Acuite believes that the liquidity of the firm is likely to remain healthy over the medium term on account of healthy cash accruals against no major debt repayments over the medium term.

Outlook: Stable

Acuité believes RC will maintain a 'Stable' business risk profile over the medium term. The firm will continue to benefit from its experienced management. The outlook may be revised to 'Positive' in case the firm registers sustained growth in revenues from the current levels while maintaining its operating margins. Conversely, the outlook may be revised to 'Negative' in case of deterioration in its working capital management, thereby impacting its financial risk profile, particularly its liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	109.03	107.40	105.94
EBITDA	Rs. Cr.	(1.59)	6.60	5.87
PAT	Rs. Cr.	(6.32)	1.90	1.89
EBITDA Margin	(%)	(1.46)	6.14	5.54
PAT Margin	(%)	(5.79)	1.77	1.78
ROCE	(%)	(4.92)	9.72	10.07
Total Debt/Tangible Net Worth	Times	1.70	1.27	1.25
PBDIT/Interest	Times	(0.43)	1.91	1.76
Total Debt/PBDIT	Times	(20.72)	4.76	5.06
Gross Current Assets (Days)	Days	160	185	190

Status of non-cooperation with previous CRA:

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
25-Jul-2018	Cash Credit	Long Term	25.04	ACUITE BB+/ Stable (Assigned)
	Bank guarantee/Letter of guarantee	Short Term	0.46	ACUITE A4+ (Assigned)

*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 (Downgraded from ACUITE BB+/Stable)
Bank guarantee/Letter of guarantee	Not Applicable	Not Applicable	Not Applicable	0.46	ACUITE A4+ (Reaffirmed)

Contacts

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About Acuité Ratings & Research:

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