

Press Release

Integral Industries Private Limited

October 29, 2019

Rating Reaffirmed



Total Bank Facilities Rated*	Rs.80.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on the Rs.80.00 crore bank facilities of Integral Industries Private Limited (IIPL). The outlook is '**Stable**'.

Incorporated in 2012, IIPL is a part of Mumbai-based Arya Group established in 1975. The RNV group is promoted by Mr. Ravi Arya and is engaged in ship breaking, ship trading, ship chartering along with trading of steel coils plates and sheets. IIPL is engaged in trading of HR/CR steel sheets, coil and plates and operates from Mumbai.

Analytical Approach

Acuité has consolidated financial and business profiles of RNV Industries Private Limited and Integral Industries Private Limited together referred to as the RNV Group. The consolidation is in view of the common ownership, same line of business and operational linkages within the group. Extent of consolidation: Full.

During the last rating exercise, the unsecured loans from relatives to the tune of Rs.13.87 crore were considered as quasi equity based on the undertaking by the promoters that they would be subordinated to bank facilities. However, Acuité has observed certain repayments of these loans in FY2019 and hence the unsecured loans from relatives have been treated as debt.

Key Rating Drivers

Strengths

• Established track record and experienced management

The RNV group is promoted by Mr. Ravi Arya, who has an experience of over four decades in the iron and steel industry. He is a seasoned businessman in the steel industry through other group companies. The group has presence in the industry since 1975. Mr. Nakul Arya, son of Mr. Ravi Arya and managing Director of RIPL and IIPL having over two decades of experience in the steel industry. Acuité believes that the RNV group will benefit from extensive experience of the promoters in this industry.

• Moderate financial risk profile

The financial risk profile is moderate marked by tangible net worth of Rs. 56.77 crore as on 31 March 2019 (Provisional) as against Rs. 48.09 crore as on 31 March 2018. This includes loans from directors of Rs. 24.99 crore treated as quasi equity as the directors have committed to maintain these in the business for a long term. The gearing stood at 1.31 times as on 31 March 2019 (Provisional) as against 2.58 times as on 31 March 2018. The total debt of Rs. 74.32 crore as on 31 March 2019 (Provisional) comprises Rs.60.08 crore of working capital borrowings, long term loan of Rs.0.37 crore and remaining are inter-corporate loans of Rs. 13.87 crore. The coverage indicators stood moderate with Interest coverage ratio of 1.16 times in FY2019 (Provisional) on account of stable operating margins coupled with high interest cost pertaining to interest charges. The TOL/TNW ratio stood at 3.05 times as on 31 March, 2019 (Provisional).

Acuité expects the financial risk profile to remain moderate over medium term on account of high dependence on working capital borrowings to sustain business operations.

Weaknesses

• Declining scale of operations and fluctuating profitability

The RNV group is engaged in trading of hot rolled and cold rolled sheets, coils and plates. The RNV group has reported revenues of Rs. 331.98 crore for FY2019 (Provisional) as against Rs. 380.38 crore for FY2018 and 394.02 crore for FY2017. Further, the RNV group has booked revenue of Rs.175 crore for April to September, 2019 (Provisional). The declining revenue is majorly due to cyclical nature in the steel industry. Further, the RNV group procures the products from Ukraine, China, Korea and Russia among others and sells in the domestic markets. As a result, the RNV group is exposed to fluctuations in forex rates. The forex exposure is partially mitigated by hedging in forward contracts. The operating margins stood at 5.84 percent in FY2019 (Provisional) as against 4.84 percent in FY2018. The profit after tax (PAT) margins stood at 0.73 percent in FY2019 (Provisional) as against 0.82 percent in FY2018. The PAT margins are low mainly due to high finance cost. The profitability is expected to remain low due to the trading nature of business.

• Working capital intensive operations

The RNV group's operations are working capital intensive in nature as reflected by its Gross current assets of around 220 days as on March 31, 2019 (Provisional) as against 241 days as on March 31, 2018. This is mainly due to high debtors of 106 days as on March 31, 2019 (Provisional) as against 150 days as on March 31, 2018. Also, the current assets includes inter-corporate deposits of around Rs.38 crore as on 31 March, 2019 (Provisional). The RNV group's working capital limits over the last twelve months period was utilized at an average of 91 per cent.

• Extension of funds

The RNV group has extended loans and advances to group companies at an extent of around Rs. 38 crore as on 31 March, 2019 (Provisional). This includes loans and advances to related parties. The outstanding loans and advances as on September 2019 however stood around Rs. 16.34 crore. Acuité believes that any significant increase in the exposure towards group entities would impinge on the financial risk profile and liquidity of the group.

Liquidity Position: Adequate

The RNV Group has adequate liquidity marked by moderate net cash accruals to its maturing debt obligations. The RNV group generated cash accruals of Rs. 2.78 crore for FY2019 (Provisional). The cash accruals of the RNV group are estimated to remain in the range of around Rs. 4.38-5.70 crore during 2020-22 against Rs.0.09 crore repayment obligation. The RNV group's working capital operation is stretched marked by gross current asset (GCA) days of 220 days for as on 31 March 2019 (Provisional). The current ratio stood at 1.37 times as on 31 March, 2019 (Provisional). Acuité believes, timely realization of the debtors in order to improve its working capital operations and the liquidity position will be a key rating sensitivity.

Rating sensitivity factor

- Improvement in revenue and profitability margins
- Any delays in realization from debtors leading to stretch in liquidity

Material covenants

Non-withdrawal of unsecured loans from directors.

Outlook: Stable

Acuité believes that the RNV group will maintain a stable outlook over the medium term owing to its experienced management and established track record. The outlook may be revised to 'Positive' in case of significant improvement in revenues and profitability without impacting the financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of significant elongation in working capital cycle leading to deterioration in the liquidity profile of the RNV group.

About the Rated Entity -Consolidated Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	331.98	385.29	396.73
EBITDA	Rs. Cr.	19.39	18.64	18.57

PAT	Rs. Cr.	2.42	3.11	3.21
EBITDA Margin	(%)	5.84	4.84	4.68
PAT Margin	(%)	0.73	0.81	0.81
ROCE	(%)	14.09	12.92	15.19
Total Debt/Tangible Net Worth	Times	1.31	2.58	2.68
PBDIT/Interest	Times	1.16	1.24	1.33
Total Debt/PBDIT	Times	3.41	6.27	4.69
Gross Current Assets (Days)	Days	220	241	238

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-17.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Consolidation of companies - <https://www.acuite.in/view-rating-criteria-60.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
30-July-2018	Letter of Credit	Long Term	45.00	ACUITE BBB- / Stable (Assigned)
	Proposed Bank Facility	Long Term	35.00	ACUITE BBB- / Stable (Assigned)

*Sublimit under FL: Letter of guarantee of Rs. 3.00 crore; Cash credit of Rs. 21.00 crore

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	45.00	ACUITE BBB- / Stable (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	35.00	ACUITE BBB- / Stable (Reaffirmed)

*Sublimit under FL: Letter of guarantee of Rs. 3.00 crore; Cash credit of Rs. 21.00 crore

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About Acuité Ratings & Research:

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