

Press Release

Ratnadeep Metal and Tubes Limited

December 31, 2019



Rating Reaffirmed

| | |
|-------------------------------------|------------------------------------|
| Total Bank Facilities Rated* | Rs. 63.00 Cr. |
| Long Term Rating | ACUITE BBB-/Stable (Reaffirmed) |
| Short Term Rating | ACUITE A3 (Reaffirmed) |

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) and the short term rating of '**ACUITE A3**' (**read as ACUITE A three**) to the above mentioned bank facilities of Rs. 63.00 crores for Ratnadeep Metal and Tubes Limited (RMTL). The outlook is '**Stable**'.

Incorporated in 2002, Ratnadeep Metal and Tubes Limited (RMTL) is an Ahmedabad based company engaged in manufacturing of Stainless Steel, Carbon Steel & Alloy Steel Tubes & Pipes. The company has manufacturing facility located at Rajpur and Chhatral, Ahmedabad with a total installed capacity of 9660 MTPA. The founders of the company are Mr. Jayant Jain and Bharat Sanghavi.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of Ratnadeep Metal and Tubes Limited (RMTL).

Key Rating Drivers:

Strengths

- **Long track record of operations and experienced promoters**

The key promoters, Mr. Jayant Jain and Bharat Sanghavi possess more than three decades of experience in steel manufacturing industry. Acuité believes the promoter's extensive experience and established network has helped the company to establish long term relationship with customers ensuring repeat orders.

- **Improvement in revenues**

The company has registered healthy revenues of Rs.146.36 crore in FY 2019 as compared to Rs 99.18 crore in FY 2018 thereby registering a y-o-y growth of 48 per cent. The increase in revenue is on account of higher exports volume of stainless steel seamless tubes backed by improved capacity utilization coupled with improved realization in FY19. Moreover, the company has clocked revenues of Rs. 105.03 crore till October, 2019 (Provisional). Moreover, RMTL has healthy order book of Rs.75.00 crores as on November 2019 providing revenue visibility over the medium term.

- **Moderate financial risk profile**

The financial risk profile of the company is moderate marked by modest net worth, gearing and debt protection metrics. The net worth of the company stood at Rs. 33.34 crore in FY2019 as compared to Rs. 30.32 crore in FY2018. The Debt-equity (gearing) stood modest at 1.32 times in FY2019 as compared to

1.10 times in FY2018. The total debt of Rs. 44.01 crore as on 31st March, 2019 consists of long term debt of Rs.7.62 crore, unsecured loan of Rs.4.25 crore and short term debt of Rs. 32.14 crore. The interest coverage ratio and DSCR stood modest at 2.15 times and 2.00 times in FY2019 as compared to 1.74 times and 1.57 times in FY2018 respectively. The NCA/TD stood at 0.15 times in FY2019 as against 0.11 times in FY2018.

Weaknesses

- **Working capital intensive nature of operations**

The company's operations are working capital intensive as evident from high Gross Current Asset (GCA) of 213 days in FY2019 as compared to 280 days in FY2018. However, GCA days has improved due to decrease in inventory days to 145 days in FY2019 as against 208 days in FY2018. The company need to maintain adequate inventory of raw material in order to avoid any disruption in production process. The debtor days decreased to 59 days in FY2019 as compared to 82 days in FY2018. The creditor days improved to 70 days in FY2019 as compared to 148 days in FY2018. However, the working capital intensity is demonstrated by the ~98 per cent utilization in the working capital limit for the twelve months ended Nov, 2019. Thus, the company's ability to efficiently manage its working capital operations remain a key rating sensitivity.

- **Declining operating margins**

The margins of the company are susceptible to volatility in raw material prices which have been uneven during the period under study of FY2017 - 2019. The same can be reflected from decline in operating margins to 9.37 percent in FY2019 from 15.92 percent in FY2017. Any significant changes in raw material prices due to import pressure and over supply will have a significant impact on the margins of the company.

Rating Sensitivity

- Improvement in scale of operations
- Sustenance of profitability
- Efficient management of working capital operations

Material Covenants

None

Liquidity Profile:

The company's liquidity profile is adequate marked by moderate net cash accruals as against its debt obligations. The company generated cash accruals of Rs. 6.56 crore in FY19 as against Rs. 3.82 crore in FY18. Moreover, the debt obligations stands high at Rs.4.03 crore in FY19. However, the company's operations are working capital intensive as evident from high Gross Current Asset (GCA) of 213 days in FY2019 as compared to 280 days in FY2018. The current ratio stood at 1.33 times as on March 31, 2019 and the fund-based limit remains utilised at 97 percent over the twelve months ended Oct, 2019. The company maintains unencumbered cash and bank balances of Rs.0.14 crore as on March 31, 2019. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term.

Outlook: Stable

Acuité believes that RMTL will maintain a 'Stable' outlook over the medium term owing to the promoters vast experience. The outlook may be revised to 'Positive' if the company achieves more than envisaged sales and profitability while maintaining its financial risk profile. Conversely, the outlook may be revised to 'Negative' if the company fails to achieve growth in revenue and the financial risk

profile deteriorates owing to higher than expected increase in debt funded working capital requirements.

About the Rated Entity - Key Financials

| | Unit | FY19 (Actual) | FY18 (Actual) |
|-------------------------------|---------|---------------|---------------|
| Operating Income | Rs. Cr. | 146.36 | 99.18 |
| PAT | Rs. Cr. | 4.97 | 2.45 |
| PAT Margin | (%) | 3.40 | 2.47 |
| Total Debt/Tangible Net Worth | Times | 1.32 | 1.10 |
| PBDIT/Interest | Times | 2.15 | 1.74 |

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

Brickwork, vide its press release dated Sep 16, 2019 had denoted the rating of Ratnadeep Metal and Tubes Limited as 'Brickwork B+/A4; ISSUER NOT COOPERATING'

Any other information

Not Applicable

Applicable Criteria

- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Default Recognition- <https://www.acuite.in/view-rating-criteria-17.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 |
|-------------|---------------------------------|------------|------------------|-------------------------------|
| 04-Feb-2019 | Cash Credit | Long Term | 19.50 | ACUITE BBB-/Stable (Assigned) |
| | Cash Credit | Short Term | 10.50 | ACUITE A3 (Assigned) |
| | Letter of credit | Short Term | 14.50 | ACUITE A3 (Assigned) |
| | Letter of credit | Short Term | 13.50 | ACUITE A3 (Assigned) |
| | Bank guarantee | Short Term | 2.00 | ACUITE A3 (Assigned) |
| | Bank guarantee | Short Term | 3.00 | ACUITE A3 (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 | 19.50 | ACUITE BBB-/Stable (Reaffirmed) |
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 10.50 | ACUITE A3 (Reaffirmed) |
| Letter of credit | Not Applicable | Not Applicable | Not Applicable | 14.50 | ACUITE A3 (Reaffirmed) |

| | | | | | |
|------------------|----------------|----------------|----------------|-------|------------------------|
| Letter of credit | Not Applicable | Not Applicable | Not Applicable | 13.50 | ACUITE A3 (Reaffirmed) |
| Bank guarantee | Not Applicable | Not Applicable | Not Applicable | 2.00 | ACUITE A3 (Reaffirmed) |
| Bank guarantee | Not Applicable | Not Applicable | Not Applicable | 3.00 | ACUITE A3 (Reaffirmed) |

*EPC/PCFC/FBP/FBD/PSCFC sublimit of cash credit of Rs. 8.00 crores.

Contacts

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|--|---|
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About Acuité Ratings & Research:

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