

Press Release

Ratnadeep Metal and Tubes Limited

February 02, 2021



Rating Reaffirmed and Assigned

Total Bank Facilities Rated*	Rs. 73.00 Cr. (Enhanced from Rs 63.00 Cr)
Long Term Rating	ACUITÉ BBB-/Stable (Reaffirmed)
Short Term Rating	ACUITÉ A3 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITÉ BBB-**' (**read as ACUITÉ BBB minus**) and short term rating of '**ACUITÉ A3**' (**read as ACUITÉ A three**) on the Rs.73.00 crore bank facilities of Ratnadeep Metal and Tubes Limited (RMTL). The outlook is '**Stable**'.

The ratings continue to reflect the company's established track record, diversified client base apart from the comfortable financial risk profile. In FY20, the company had witnessed an improvement in coverage and leverage ratios because of rise in absolute EBITDA. However, the profitability margin continued to witness a declining trend during FY20 due to rise in operating expenses. Acuité believes the company will post flattish revenues and healthy profitability margins in medium term backed by completion of capex towards backward integration plan.

Ratnadeep Metal and Tubes Limited (RMTL), incorporated in 2002 is an Ahmedabad based company engaged in manufacturing of Stainless Steel, Carbon Steel & Alloy Steel Tubes & Pipes. The company has manufacturing facilities 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. Management is planning to undertake a debt led capex plan of Rs 20 crore in FY22, which will be funded through a mix of debt and internal accruals in 1:1 ratio.

Analytical Approach

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

Key Rating Drivers

Strengths

Long operational track record

Ratnadeep Metal and Tubes Limited was incorporated in 2002 by Mr. Jayanti Jain and Mr. Bharat Sanghavi. Promoters of the company have decade long experience in steel industry. The company has a presence in both domestic and export markets such as South Africa, Australia, Singapore, Malaysia, United Kingdom, Thailand and Canada among others. The company caters to diversified customers in various end-user industries including oil and gas, power, refineries and engineering companies. In addition, the company had witnessed a healthy improvement in scale of operation as reflected from its revenue of Rs 170.29 crore in FY20 as against Rs 146.36 crore in FY19. The improvement is driven by rise in sales volume of SS Seamless pipes because of rise in demand from overseas markets. Acuité believes the scale of operation of the company will remain at similar level in FY21 due to low capacity utilization during H1FY21 for the pandemic.

Comfortable financial risk profile

The financial risk profile is marked by its moderate net worth, comfortable gearing ratio and healthy debt protection metrics. The net worth of the company stood at Rs. 38.49 Cr. as on 31st March'2020 as compared to Rs 33.34 Cr. in the previous year. The gearing ratio of the company stood at 1.04 times in FY20 as against 1.32 times in FY19. The total debt of Rs.40.08 Cr in FY2020 consists of short-term loan of Rs. 31.81 Cr, long-term debt of Rs.5.4 Cr and unsecured loan from promoters of Rs. 2.87 Cr. Interest coverage and DSCR stood at 2.78

times and 1.37 times in FY20 as against 2.15 times and 2 times in FY19 respectively. NCA/TD stood at 0.19 times in FY20 as against 0.15 times in FY19. Going forward, Acuité believes the financial risk profile will remain similar over the medium term after considering the upcoming debt led capex plan of Rs 20 crore.

Weaknesses

Declining profit margin

The profitability of the company has continuously declined with EBITDA margin at 8.95 percent in FY20 as against 9.37 percent in FY19 and 11.6 percent in FY18. This deterioration is on account of rise in operating expenses such as employee expense and manufacturing cost. Management is planning to undertake a capex plan in FY22 which is expected to reduce the manufacturing cost and improve the operating margin in medium term.

Rating Sensitivity

- Substantial improvement in the scale of operation along with maintenance in profitability margins
- Improvement in debt protection metrics

Material Covenant

None

Liquidity Profile: Adequate

The company has an adequate liquidity profile as net cash accrual stood at Rs 7.55 crore as against current maturity of Rs 2.19 crore. Going forward, the net cash accruals are expected to be in the range of Rs 8-11 Cr as against current maturity of around Rs.2.20 Cr from FY21-FY23. The working capital utilization stood moderate at 84 percent during last 12 months ended December 2020. Current ratio stood comfortable at 1.36 times in FY20. Net cash from operations also stood comfortable at Rs 12.24 crore in FY20. The working capital requirement had declined, as GCA days stood at 160 days in FY20 as against 213 days in FY19. Acuite expects the liquidity position of the company will remain comfortable over the medium term backed by steady cash flow.

Outlook: Stable

Acuité believes the outlook of RTML will remain 'Stable' over the medium term backed by its long track record of operation and comfortable financial risk profile. The outlook may be revised to 'Positive' in case of improvement in the financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of deterioration in liquidity profile.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	170.29	146.36
PAT	Rs. Cr.	5.66	4.97
PAT Margin	(%)	3.32	3.40
Total Debt/Tangible Net Worth	Times	1.04	1.32
PBDIT/Interest	Times	2.78	2.15

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.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
31- December 2019	Cash Credit	Long Term	19.50	ACUITE BBB-/ Stable (Reaffirmed)
	Cash Credit	Long Term	10.50	ACUITE BBB-/ Stable (Reaffirmed)
	Letter of Credit	Short Term	14.50	ACUITE A3 (Reaffirmed)
	Letter of Credit	Short Term	13.50	ACUITE A3 (Reaffirmed)
	Bank guarantee	Short Term	2.00	ACUITE A3 (Reaffirmed)
	Bank guarantee	Short Term	3.00	ACUITE A3 (Reaffirmed)
04-Febraruay -2019	Cash Credit	Long Term	19.50	ACUITE BBB-/ Stable (Assigned)
	Cash Credit	Long Term	10.50	ACUITE BBB-/ Stable (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**

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 BBB-/ Stable (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)
Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB-/ Stable (Assigned)

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About Acuité Ratings & Research:

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