

Press Release

Rattan Ispat Private Limited

March 20, 2020



Rating Assigned

Total Bank Facilities Rated*	Rs. 30.00 Cr.
Long Term Rating	ACUITE BB+/Stable (Assigned)
Short Term Rating	ACUITE A4+ (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned a long term rating of '**ACUITE BB+**' (**read as ACUITE double B plus**) and a short term rating of '**ACUITE A4+**' (**read as ACUITE A four plus**) to Rs.30 crore of Rattan Ispat Private Limited. The outlook is '**Stable**'.

Incorporated in 2004, Rattan Ispat Private Limited (RIPL) is engaged in manufacturing of mild steel ingot and trading of various finished steel products like TMT, coil (wire rod), section (angle, joist) and pipe. Currently, the company is headed by Mr. Rohit Agarwal and Mr. Gautam Agarwal. The company had set up an induction furnace for manufacturing of Billet with annual capacity of 22,800 mtpa. Presently, the company is going for an expansion of their existing unit by installing additional induction furnaces with a planned capacity of 192,000 mtpa.

Analytical Approach

Acuité has taken a standalone view of the business and financial risk profile of RIPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Long track record of operations**

Established in 2004, Rattan Ispat Private Limited (RIPL) has a long operational track record of fifteen years in the iron & steel industry. Acuité believes the long track record has helped RIPL to establish healthy relationship with suppliers and reputed customers and ensure repeat orders.

- **Comfortable working capital management**

The working capital management of the company is comfortable marked by moderate Gross Current Assets (GCA) of 39 days in 31st March 2019 as compared to 63 days in 31st March 2018. The debtor period is comfortable at 25 days in 31st March 2019 as compared to 48 days in 31st March 2018. Further, the inventory holding is also comfortable at 11 days in 31st March 2019 as compared to 13 days as on 31st March 2018. Acuité believes that the working capital operations of the firm will remain comfortable as evident from efficient collection mechanism and low inventory levels over the medium term.

Weakness

- **Low profitability margins**

The profitability margins of the company are low on account of high raw material cost. The operating margin of the company stood low at 0.67 per cent as on FY2019 as against 0.75 per cent as on FY2018. The profit margin stood low at 0.39 per cent as on FY2019 as against 0.26 per cent as on FY2018. However, the Return on Capital Employed (ROCE) of the company stood modest at 10.74 per cent as on FY2019 as against 9.91 per cent as on FY2018. Acuité believes that the company's ability to improve its profitability will be a key rating sensitivity.

• Risk in project execution

The company is in the process of setting up additional billet manufacturing capacity of 192,000 mtpa at its existing plant premises. The said project involves a fund outlay of around Rs. 40 crores which is expected to be funded from Rs. 26 crores of bank debt and the balance Rs. 14 crores from own sources. The project is yet to get financial closure thus exposing the company to significant funding risk. Moreover, any cost or time overruns in the ongoing project would adversely impact the financial risk profile of the company.

Rating Sensitivity

- Improvement in the scale of operation while improving profitability margin
- Timely completion of the ongoing capex

Material Covenant

None

Liquidity Profile

The company's liquidity is adequate marked by the net cash accruals stood at Rs.1.10 crore in March 31, 2019 as against long term debt repayment of Rs.0.08 crore over the same period. The current ratio stood at 1.30 times as on March 31, 2019 as compared to 1.26 times as on March 31, 2018. The fund based limit remains utilised at 47 per cent over the thirteen months ended October, 2019. The cash and bank balances of the company stood at Rs.0.04 crores as on March 31, 2019 as compared to Rs.0.08 as on March 31, 2018. The working capital management of the company is comfortable as reflected by Gross Current Assets (GCA) of 39 days in March 31, 2019 as against 63 days in March 31, 2018. The company is in the process of incurring a capex of Rs.40 crore to enhance its production facilities. The said capex would be funded from Rs.26 crore of debt and the balance from own sources. This would deteriorate the liquidity position of the company from the current levels. However, Acuité believes that the company would be able to maintain an adequate liquidity position driven by enhanced accruals from the increased turnover though partly constrained by higher repayment obligations.

Outlook: Stable

Acuité believes that RIPL will maintain a 'Stable' outlook owing to the long track record of operations. The outlook may be revised to 'Positive' in case of stability and improvement in profitability and capital structure while improving scale of operations. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the profitability margins and delay in project execution.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	222.86	168.36
PAT	Rs. Cr.	0.86	0.44
PAT Margin	(%)	0.39	0.25
Total Debt/Tangible Net Worth	Times	0.31	0.22
PBDIT/Interest	Times	5.02	6.65

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

Not Applicable

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)

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	4.80	ACUITE BB+/Stable (Assigned)
Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	24.75	ACUITE BB+/Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	0.45	ACUITE A4+ (Assigned)

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About Acuité Ratings & Research:

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