

Press Release

Sri Raghavendra Ferro Alloys Private Limited

July 08, 2020

Rating Assigned



Total Bank Facilities Rated*	Rs.45.00 Cr.
Long Term Rating	ACUITE BB+ / Outlook: Stable
Short Term Rating	ACUITE A4+

* Refer Annexure for details

Rating Rationale

Acuite has assigned the long term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) and the short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) to the Rs.45.00 crore bank facilities of Sri Raghavendra Ferro Alloys Private Limited (SRFAPL). The outlook remains '**Stable**'.

Sri Raghavendra Ferro Alloys Private Limited (SRFAPL) was initially incorporated in the year 2004 by Mr. K Srinivasa Reddy. The company is primarily involved in the business of manufacturing Ferro Alloys and in particular Silico Manganese and Ferro Silicon. The company's registered office is located at Nalgonda, Telangana and has 3 manufacturing plants with a combined annual capacity of around 50,000 tonnes per annum.

Analytical Approach

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

Key Rating Drivers

Strengths

• Extensive experience of the management in the Ferro Alloys industry

The promoters of SRFAPL have more than two decades of experience in the Ferro Alloys industry. The extensive experience of the promoters is reflected through the established relationship with its customers and suppliers. The key customers include major steel plants in the country like Vishakhapatnam Steel Plant (RINL) and JSW Steel Ltd. On the back of the stable and repeat orders from their customers, the revenues have seen a compound annual growth rate (CAGR) of about 39 per cent over the past three years through FY2019 at Rs.281.37 crores.

Acuite believes that the company will continue to benefit from the promoter's established presence in the Ferro Alloys industry and improve its business risk profile over the medium term.

• Moderate financial risk profile

The financial risk profile of the company is moderately marked by modest net worth of Rs.46.35 crore as on 31 March 2019. The gearing (debt-to-equity ratio) stood low at 0.43 times as on 31 March 2019 compared to 0.59 times the same period last year due to a decrease in debt levels of the company and working capital borrowings. The total debt of Rs.19.88 crore consists of working capital borrowings of Rs.18.20 crore and term loan of Rs.1.68 crores as on 31 March 2019. Interest Coverage Ratio (ICR) is comfortable at 4.59 times and Debt Service Coverage Ratio (DSCR) at 3.40 times in FY2019.

Acuite believes that the financial risk profile of the company to remain moderate in the absence of any major debt-funded capex plans in the medium term.

Weaknesses

• Working capital intensive nature of operations

The company operates in a working capital intensive nature of operations marked by Gross Current Asset (GCA) days of 86 days in FY2019 compared to 84 days in FY2018. This is majorly on account of high receivable days of 55 days for FY2019 and 50 days for FY2018 respectively. SRFAPL's inventory levels remained low at 14 days for FY2019 vis-à-vis 30 days for FY2018. This has led to high reliance on working

capital borrowings and the fund based limit utilized at 100% percent during the last 6-month period ended in May 2020.

Acuite believes that, with the nature of the business, operations are expected to be working capital intensive over the medium term.

• **Highly fragmented and intensely competitive industry**

The Ferro Alloys industry is marked by the presence of a large number of organized and unorganized players owing to low entry barriers. The company faces intense competition from the presence of several mid to large-sized players in the said industry. The presence of a large number of players has a direct impact on pricing, restricts bargaining power having an adverse impact on margins.

Liquidity position: Adequate

SRFAPL has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.11.33 crores in FY2019 against maturing debt obligations of Rs.0.46 crores during the same period. The cash accruals of the SRFAPL are estimated to remain around Rs.9.95 to 9.66 crore during 2020-22, while its repayment obligations are estimated to be in the range of Rs.0.10 to 0.20 crores over the medium term. The SRFAPL's operations are relatively working capital intensive as marked by Gross Current Assets (GCA) of 86 days in FY 2019. This has led to high reliance on working capital borrowings and the fund based limit utilized at 100% percent during the last 6-month period ended in May 2020. The current ratio of the SRFAPL stood at 1.02 times as on March 31 2019, compared to 0.91 times the same period last year.

Rating Sensitivities

- Modest scale of operations with improvement in revenue growth and profitability margins
- Deterioration in working capital management will have a further impact on liquidity

Material Covenants

None

Outlook: Stable

Acuite believes that SRFAPL will continue to benefit over the medium term due to its established relations with its customers. The outlook may be revised to "Positive" if the company demonstrates substantial and sustained growth in its revenues and operating margins from the current levels while improving its capital structure through reducing its receivables. Conversely, the outlook may be revised to "Negative", if a company generates lower-than-anticipated cash accruals and maintain same liquidity position most likely as a result of a sharp decline in operating margins, or further stretch in its working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	281.37	202.01
PAT	Rs. Cr.	6.91	4.38
PAT Margin	(%)	2.46	2.17
Total Debt/Tangible Net Worth	Times	0.43	0.59
PBDIT/Interest	Times	4.59	4.17

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

CRISIL, vide its press release dated 27 Mar 2020 has denoted the rating of SRFAPL as CRISIL BB/Stable/CRISIL A4+; Issuer Not Cooperating' on account of lack of adequate information required for monitoring of ratings.

Any other information

None

Applicable Criteria

- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.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. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	22.00	ACUITE BB+/Stable
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A4+
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE A4+

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About Acuité Ratings & Research:

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