

Press Release

Sri Raghavendra Ferro Alloys Private Limited

April 10, 2023



Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	26.00	ACUITE BB Stable Reaffirmed	-
Bank Loan Ratings	19.00	-	ACUITE A4+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	45.00	-	-

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BB**' (read as **ACUITE double B**) 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**'.

Rationale for the rating

The rating takes into account the established track record of operations of the company along with extensive experience management in the Ferro Alloys industry. The rating also draws comfort improvement in revenue from operations and moderate financial risk profile as reflected by the comfortable leverage ratios of the company. However, the rating is constrained by working capital intensive nature of operations of the company and highly competitive and fragmented industry.

About the Company

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 4 manufacturing plants with a combined annual capacity of around 40,000 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

Established track record of operations with experience management

SRFAPL was established in 2004 reflecting a track record of operations for more than 1.5 decades in manufacturing of ferro alloys. The SRFAPL has four manufacturing plants with a combined annual capacity of ~40,000 tonnes per annum. Furthermore, the promoters of the

SRFAPL have more than two decades of experience in the afore mentioned industry. The extensive experience of the promoters has helped the SRFAPL to establish long term relationships with its customers and suppliers. The key customers includes renowned steel plants in the country like Vishakhapatnam Steel Plant, JSW Steel Ltd among others. On the back of the stable and repeat orders from their customers, the revenues of the SRFAPL have seen an improvement from Rs.163.94 Cr. in FY2021 to Rs.280.48 Cr. in FY2022 registering a growth of ~71 per cent.

Acuité believes that the SRFAPL will continue to benefit from established track record of operations with promoter's extensive experience over the medium term.

Moderate financial risk profile

The financial risk profile of the SRFAPL is moderate marked by modest net worth, comfortable gearing ratio and comfortable debt protection metrics. The networth of the company stood at of Rs.51.26 Cr. and Rs.49.33 Cr. as on March 31 2022 and March 31 2021 respectively. The gearing (debt-to-equity ratio) stood low at 0.57 times as on 31 March 2022 compared to 0.60 times as on March 31 2021. The total debt of the company stood at Rs.29.16 Cr as on March 31 2022 which consist of long-term debt of Rs.7.14 Cr, short-term debt of Rs.21.10 Cr, unsecured loan from directors of Rs.0.66 Cr and maturing portion of long term borrowings of Rs.0.25 Cr. The TOL/TNW stood at 1.93 times in the March 31 2022 against 1.32 times in the March 31st 2021. The debt protection matrices of the company remain comfortable marked by Interest Coverage Ratio (ICR) and Debt Service Coverage Ratio (DSCR) of 2.89 times and 2.69 times respectively for March 31st 2022.

Acuité believes that the financial risk profile of the SRFAPL 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 operations of the company are working capital intensive in nature marked by high Gross Current Asset (GCA) days of 166 days for FY2022 as against 158 days for FY2021. The high GCA days is majorly on account of high inventory days which stood at 52 days for FY2022 as against 28 days for FY2021. However, the receivable days improved and stood at 38 days for FY2022 as against 68 days as on FY2021. The creditor days stood stable at 71 days and 70 days for FY2022 and FY2021 respectively. The working capital intensive nature of operations led to high reliance of working capital facilities of the company which are highly utilized at around 98.40 per cent in the past 12 months ended December 2022.

Acuité believes that the working capital management of the company over the medium term will remain a key rating sensitivity.

Presence in highly competitive and fragmented 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.

Rating Sensitivities

- Improvement in the scale of operations while sustaining its profitability margin
- Elongation in working capital cycle
- Sustenance of the financial risk profile

Material covenants

None

Liquidity Position: Adequate

SRFAPL has adequate liquidity marked with sufficient NCA's for its repayment obligations. The company has generated cash accruals of Rs.6.18 Cr during the FY2022, while its maturing debt

obligations was Rs.0.17 Cr during the same period. SRFAPAL has generated net cash accruals of Rs.6.30 -7.32 Cr during the next three years through 2023-25, while its maturing debt obligations were in the range of Rs.0.36-0.46 Cr during the same period. However, the working capital facilities of the company are highly utilized at around 98.40 per cent in the past 12 months ended December 2022 owing to working capital intensive nature of operations.

The company has maintained unencumbered cash and bank balances Rs.0.08 Cr and the current ratio stood at 1.37 times as on March 31, 2022. Acuite believes that the liquidity of the company will remain adequate on account of adequate net cash accruals against matured debt obligations over the medium term.

Outlook: Stable

Acuite believes that SRFAPL will continue to benefit over the medium term due to established track record of operations and experienced management. 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. Conversely, the outlook may be revised to 'Negative', if a company generates lower-than-anticipated cash accruals and deterioration in the liquidity position of the company most likely as a result of sharp decline in operating margins, or further stretch in its working capital cycle.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	280.48	163.94
PAT	Rs. Cr.	1.93	1.31
PAT Margin	(%)	0.69	0.80
Total Debt/Tangible Net Worth	Times	0.57	0.60
PBDIT/Interest	Times	2.89	2.25

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

None

Any other information

None

Applicable Criteria

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

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
12 Dec 2022	Bank Guarantee	Short Term	8.00	ACUITE A4+ (Issuer not co-operating*)
	Cash Credit	Long Term	22.00	ACUITE BB (Issuer not co-operating*)
	Letter of Credit	Short Term	15.00	ACUITE A4+ (Issuer not co-operating*)
16 Sep 2021	Bank Guarantee	Short Term	8.00	ACUITE A4+ (Issuer not co-operating*)
	Cash Credit	Long Term	22.00	ACUITE BB (Downgraded and Issuer not co-operating*)
	Letter of Credit	Short Term	15.00	ACUITE A4+ (Issuer not co-operating*)
08 Jul 2020	Bank Guarantee	Short Term	8.00	ACUITE A4+ (Assigned)
	Cash Credit	Long Term	22.00	ACUITE BB+ Stable (Assigned)
	Letter of Credit	Short Term	15.00	ACUITE A4+ (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Union Bank of India	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	4.00	ACUITE A4+ Reaffirmed
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	21.00	ACUITE BB Stable Reaffirmed
Union Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	15.00	ACUITE A4+ Reaffirmed
Union Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	5.00	ACUITE BB Stable Reaffirmed

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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