

Press Release

Rimjhim Ispat Limited

August 06, 2020

Rating Assigned



Total Bank Facilities Rated*	Rs. 438.00 Cr.
Long Term Rating	ACUITE A-/Stable (Assigned)
Short Term Rating	ACUITE A2+ (Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has assigned the long term rating of '**ACUITE A-**' (read as **ACUITE A minus**) and the short-term rating of '**ACUITE A2+**' (read as **ACUITE A two plus**) on the Rs. 438.00 crores bank facilities of Rimjhim Ispat Limited (RIL). The outlook is '**Stable**'.

About the company

Uttar Pradesh based, RIL was incorporated in 1991 as 'Vandana Casting Private Limited' and later in 1994 the company name and the constitution was changed to "Rimjhim Ispat Limited". The company is engaged in the manufacturing of stainless steel billets, bright round bars, wire rods and fine wires with the overall installed capacity of 3,50,000 metric tons per annum.

About the group:

Rimjhim Group (RG) comprises of three companies, namely, Rimjhim Ispat Limited, Juhi Alloys Limited and Rimjhim Stainless Limited. Juhi Alloys Limited (JAL) was incorporated in 1990 which is engaged in manufacturing of Stainless Steel Flats and round products. Rimjhim Ispat Limited (RIL) was incorporated in 1991 and later in 2002, Rimjhim Stainless Limited (RSL) was incorporated. RIL and RSL are engaged in processing of stainless steel products viz. stainless steel wire rods, hot-rolled coil, cold-rolled coil and other steel-based products like structures.

The group is promoted by the Agarwal family viz Mr. Yogesh Agarwal and Mr. Sanjeev Kumar Agarwal along with Mr. Rajeev Kumar Goel. The group produces a wide range of products which are used in numerous industries including construction, automotive, appliances, industrial machinery and oil & gas industries, among others. The group has a strong presence in the domestic market of over three decades along with geographical diversification of customers in states likes Delhi, Uttar Pradesh, Gujrat, Rajasthan and Maharashtra. Further, the group is also engaged in overseas exports of their products; however, the export is limited to the extent of ~5% of their total revenues.

Analytical Approach

Acuite has consolidated the financial and business risk profile of Rimjhim Ispat Limited (RIL), Rimjhim Stainless Limited (RSL) and Juhi Alloys Limited (JAL) together referred to as the 'Rimjhim Group' (RG). The consolidation is in view of the common ownership, cross corporate guarantees extended by the group companies for bank facilities and strong operational and financial linkages within the group. Extent of Consolidation: Full.

Key Rating Drivers

Strengths

• Experienced management and long track record of operations

The Rimjhim Group commenced its operations in 1990 under the leadership of Agarwal family and thus the group has a long track record of operations of three decades in the Steel industry. Currently, the day-to-day operations of the group are managed by Mr. Yogesh Agarwal, Mr. Sanjeev Agarwal and Mr. Rajeev Goel along with other industry veterans with an experience of over three decades in the aforementioned industry. The group is well supported by the second line of the experienced management team. Established presence of the group along with experienced management, has

helped RG maintain a long relationship with its customers which has aided the group in maintaining healthy revenue levels as reflected by the operating income of Rs. 2,821.53 crore in FY2020 (Provisional) as against Rs. 2,753.80 crore in FY2019. Further, the group has a wide range of clientele with top 10 customers contributing to ~18% of the total revenues in FY2020 (Provisional). The group has benefitted by its established position in the market along with experienced management which is further exemplified by many awards won by them some of them being, 2-Star Export House by Directorate General of Foreign Trade, India in 2018-19 and 2019-20 and Star Performer Award for 2013-14 in Iron & Steel (Medium Enterprise) by Engineering Export Promotion Council (EEPC), India.

Acuite believes Rimjhim group will continue to benefit from its long track of operations, the strong presence of the group in the domestic market and the rich experience of the management over the medium term.

• **Healthy Financial risk profile**

The financial risk profile of RG stood healthy, marked by healthy net worth, comfortable gearing and healthy coverage indicators. The tangible net worth of the group stood healthy at Rs. 653.82 crores (including Quasi Equity of Rs.127.08 crore) as on 31 March, 2020 (Provisional) as against Rs. 553.13 crores (including Quasi Equity of Rs.114.63 crore) as on 31 March, 2019 on the back of healthy accretion to reserves and increase in Quasi Equity, which in turn is a result of healthy profitability levels maintained by the group over the years.

The total debt of the group as on 31 March 2020 (Provisional) stood at Rs. 264.96 crores which comprise of long term borrowings of Rs. 43.04 crores and working capital borrowings of Rs. 221.91 crores. The total outside liabilities to total net worth (TOL/TNW) ratio stands healthy at 0.92 times as on 31 March, 2020 (Provisional) as against 1.09 times as on 31 March, 2019. Further, the gearing levels of the company stood healthy as well marked by the peak gearing of 0.83 times as on 31 March 2018 and the current gearing levels stood at 0.41 times as on 31 March 2020 (Provisional). The Debt protection metrics of the group also depict healthy operations marked by the interest coverage ratio 4.26 times and the debt service coverage ratio of 1.78 times as on 31 March 2020 (Provisional). Further, the group reported healthy net cash accruals (NCA) of Rs. 134.96 crore in FY2020 (Provisional) against repayment obligations of Rs. 29.98 crores while the net cash accruals for the previous year stood at Rs. 118.95 crores against repayment obligations of Rs. Rs. 35.07 crores.

Acuite believes that the group will be able to sustain its healthy financial risk profile in near to medium term backed by healthy net cash accruals and in the absence of any major debt-funded capex.

• **Efficient Working Capital Operations**

RG's operations are working capital efficient in nature as reflected by its Gross Current Asset (GCA) days of around 113 days as on March 31, 2020 (Provisional) as against 106 days in the previous year. The working capital cycle remains healthy on account of low inventory levels maintained by the group standing at 58 days in FY2020 (Provisional) as against 55 days in FY2019 along with low debtor collection period of the group which is around 36 days for FY2020 (Provisional) as well as the previous year. Further, the bank limit utilization of the group stood around 76.51% in the last 6 months ending on June 2020. In addition to the above, the creditor payback period of RG stands at 39 days in FY2020 (Provisional). Acuite expects the operations of the group to remain working capital efficient on account of low inventory levels maintained by the group along with limited credit period offered to its customers.

Weaknesses

• **Intense competition and inherent cyclical nature of steel industry**

Competition in the Indian secondary steel industry is intense due to the presence of a large number of unorganized and organized players with limited differentiation in end products. Demand for steel products predominantly depends on the construction and infrastructure sectors. Thus RG's business risk profile is exposed to the inherent cyclicity in these sectors. Further, the group is also engaged in the exports of their products overseas where it is prone to the risk of currency fluctuation along with the threat of trade barriers from various countries.

• **Decline in the demand in the industry on the advent of the pandemic:**

The steel industry like the others has seen a downturn in demand in the current financial year due to the pandemic caused on account on Covid-19. Steel industry has remained highly dependent on various industries such as manufacturing, Infrastructure and Real Estate to name a few. However, on account of the outbreak of COVID – 19 led by lockdowns across the country has impacted these industries significantly. The steel demand is expected to remain tepid till Q2FY2021 and attaining normalcy would

be a gradual process. The same is evident from tepid sales for Q1FY2021 marked by revenues of Rs. 494.49 crores. However, Acuite believes despite the tepid cash flows of the group will be able to manage its operations on account of a healthy liquidity position. Any higher-than-expected deviation in liquidity or business profile vis-a-viz Acuite expectation would remain a key monitorable for future credit movement of the group.

Rating Sensitivity Factor

- Significant improvement in scale of operations, while maintaining profitability margins
- Deterioration in working capital cycle leading to deterioration of financial risk profile and liquidity.

Material Covenants

None

Liquidity Position: Healthy

The liquidity profile of the RG is healthy, marked by healthy net cash accruals against maturing debt obligations. The group generated cash accruals in the range of Rs. 101.51-134.96 crores against repayment obligations of Rs. 42.69-29.98 crores during FY2018-2020. The average bank limit utilization of the group stood at 76.51% for the last 6 months ending in June 2020. The cash and bank balance stood at Rs. 3.14 crores and a current ratio of the group stood at 1.54 times as on 31 march 2020 (Provisional). The Gross Current Asset (GCA) days of RG stood healthy at 113 days in FY2020 (Provisional) and 106 days in FY2019. Acuite believes that the liquidity of the group is likely to remain healthy over the medium term on account of healthy cash accruals against debt repayments over the medium term.

About the Rated Entity - Key Financials

	Unit	FY20 (Prov.)	FY19 (Actual)
Operating Income	Rs. Cr.	2821.53	2753.80
PAT	Rs. Cr.	83.24	70.18
PAT Margin	(%)	2.95	2.55
Total Debt/Tangible Net Worth	Times	0.41	0.61
PBDIT/Interest	Times	4.26	3.76

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>
- Entities in manufacturing sector - <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation - <https://www.acuite.in/view-rating-criteria-60.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. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	9.75	ACUITE A-/ Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	37.50	ACUITE A-/ Stable (Assigned)

Cash Credit	Not Applicable	Not Applicable	Not Applicable	31.50	ACUITE A-/ Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	170.95	ACUITE A-/ Stable (Assigned)
Inland letter of credit/ Foreign Letter of Credit	Not Applicable	Not Applicable	Not Applicable	18.75	ACUITE A2+ (Assigned)
Inland letter of credit/ Foreign Letter of Credit	Not Applicable	Not Applicable	Not Applicable	112.00	ACUITE A2+ (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	3.75	ACUITE A2+ (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	31.50	ACUITE A2+ (Assigned)
Proposed long term facility	Not Applicable	Not Applicable	Not Applicable	13.30	ACUITE A-/ Stable (Assigned)
Proposed short term facility	Not Applicable	Not Applicable	Not Applicable	9.00	ACUITE A2+ (Assigned)

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About Acuité Ratings & Research:

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