

Press Release

Rathi Steel and Metal Private Limited (Erstwhile Rajuri Steels Private Limited)

March 31, 2021



Rating Upgraded

Total Bank Facilities Rated*	Rs. 85.50 cr.
Long Term Rating	ACUITE BBB-/Stable (Upgraded from ACUITE BB)
Short term Rating	ACUITE A3 (Upgraded from ACUITE A4+)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded the long term rating to '**ACUITE BBB-**' (**read as ACUITE Triple B minus**) from '**ACUITE BB**' (**read as ACUITE double B**) and the short term rating to '**ACUITE A3**' (**read as ACUITE A three**) from '**ACUITE A4+**' (**read as ACUITE A four plus**) on the Rs. 85.50 crore bank facilities of Rathi Steel and Metal Private Limited (RSPL). The outlook is '**Stable**'.

Revision in rating

The upgrade in the ratings factor in the improvement in the business risk profile as well as financial risk profile of the company along with favorable industry prospects. The same is also supported by improvement in scale of operations along with improved operating margins and efficient working capital management as witnessed in last three years ending FY2020. The company is also able to demonstrate improvement in capital structure by raising equity capital in FY2021. The rating also factors in long extensive experience of promoters in the steel business and vintage of relationship with its customers and suppliers. However, the ratings are constrained by susceptibility to volatility in raw material prices, intense competition and cyclical nature inherent in the steel industry.

About the company

Rathi Steel and Metal Private Limited (erstwhile Rajuri Steels Private Limited) based of Jalna, Maharashtra was incorporated in the year 1990. The company has recently changed its name in March 2021. The company is engaged in the manufacturing of mild steel billets and Thermo-Mechanically Treated (TMT) bars. The manufacturing facility is located at Jalna (Maharashtra) with an installed capacity of 2,28,000 tonnes per annum (TPA) for TMT rolling and 2,16,000 TPA for MS Billets. The operations are managed by Mr. Dinesh Rathi. Products are sold through 750 dealers across Maharashtra, Gujarat, Madhya Pradesh and Goa, under the Rajuri-500 and Icon Steel brand.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Established presence in industry and extensive industry experience of the promoters**

Rathi Steel and Metal Private Limited (RSPL) has established presence in the steel industry since 1990. The company has established its own brand 'Rajuri-500' which has a strong regional market recall for TMT bars. The key promoter Mr. Dinesh Rathi, has more than two decades of experience in steel industry and has developed keen insight and market knowledge needed for anticipating price trends, calibrate purchasing as well as stocking decisions. The company is also well supported by experienced second line of management. Over the years, company has developed longstanding relationship with its customers and suppliers. Moreover, has strong distribution network of 400 plus dealers which are spread across Maharashtra, Gujarat, Madhya Pradesh and Goa.

The extensive experience of the promoters, steady demand and moderate capacity utilization levels has resulted in operating income of Rs. 541.21 crore in FY2020 as against Rs. 594.38 crore in FY2019. The company has achieved revenue of Rs 311.07 crores for 11MFY2021. The revenue though expected to decline in current fiscal due to Covid-19 impact. However, it is likely to grow sharply again in fiscal 2022 on the back of increase in demand. Acuité believes that RSPL will continue to benefit from its experienced management, established brand presence and longstanding relationship with its customers and suppliers.

- **Healthy financial risk profile and efficient working capital cycle**

RSPL has a healthy financial risk profile marked by net worth of Rs. 106.98 crore as on March 31, 2020 as against Rs. 101.18 crores as on March 31, 2019. The net worth includes quasi capital of Rs 60.75 crore as on March 31, 2020 subordinated with bank facility. Also, company has raised paid up equity capital to Rs.1.60 crores as on February 2021 by converting Rs. 22.89 crores of loan from group companies, resulting in improvement in the capital structure. The gearing of the company stood low at 0.83 times as on March 31, 2020 as against 0.76 times as on March 31, 2019. The debt of Rs. 88.81 crores, mainly consists of short term debt of Rs. 55.36 crores and term loan of Rs.33.45 crores as on March 31, 2020. The debt protection metrics are marked by moderate Interest Coverage Ratio, which stood at 1.93 times as on March 31, 2020 as against 2.01 times as on March 31, 2019. Debt Service Coverage Ratio (DSCR) of the company stands at 1.12 times for FY2020 as against 1.17 times as on FY2019. Also, NCA/TD stood at 0.14 times for FY2020 as against 0.18 times for FY2019. TOL/TNW stood at 1.37 times in FY2020 and 1.36 times in FY2019.

Further, efficient working capital management is reflected by comfortable gross current asset (GCA) days of 81 days as on March 31, 2020 as against 61 days as on March 31, 2019. The receivable days stood at 57 days in FY2020 as against 33 days in FY2019. The inventory days stood at 23 days in FY2020 as against 26 days in FY2019. However, the working capital borrowings in remained highly utilised at around 94.05 percent during last six month ending January 2021. Acuité believes that the company will maintain an efficient working capital management over the near to medium term on account of adequate availability of funds.

Weaknesses

- **Susceptibility of profitability margins to volatility in raw material prices**

The margins are susceptible to volatility in raw material prices which have been uneven during the period under study. Also, cost of production and profit margin are heavily dependent on raw material prices (sponge iron and mild steel scrap). The inability of company to pass on increase in prices immediately due to commodity nature of product has led to volatility in margins which ranges from 3 to 5 percent for past three fiscal ending 2020. Any significant changes in raw material prices due to import pressure and over supply are likely to have an adverse impact on margins of the company.

- **Cyclical and competitive nature of steel industry**

The steel long products industry is intensely competitive, with many organized and unorganized players especially in the secondary/steel re-rolling business, which is less capital-intensive. RSPL operates in a highly competitive steel industry thereby putting pressure on capacity utilisation and pricing power. In addition, the industry is reeling under the pressure of cheaper imports. The performance is linked to the steel industry which is cyclical in nature as well as end user industries such as real estate, infrastructure and construction. However, this risk is mitigated as the infrastructure industry is booming and the demand is much on a higher side backed by government initiatives for the upcoming years.

Liquidity position: Adequate

The net cash accruals of company stood in range of Rs.11.04 to Rs.14.10 crores as against repayment obligation of Rs.2.80-Rs.5.50 crores for last three years ending FY2020. The same are expected to be in the range of Rs.11.00 to Rs.15.00 crores going forward on account of expected higher profitability levels against repayment obligation of Rs. 5 to Rs.6.00 crores. The unencumbered cash and bank balances available with the company stood at Rs. 0.16 crores as on March 31, 2020 as against Rs. 0.41 times as on March 31, 2019. The current ratio of the company stood at 1.13 times in FY2020 as against 1.10 times in FY2019. The working capital borrowings remained highly utilised at around 94.05 percent during last six month ending January 2021. Acuité believes that the company will be able to maintain its existing liquidity profile on account of stable business risk profile and no major debt funded capital expenditure plans.

Rating Sensitivities

- Elongation in working capital cycle
- Sustaining existing business and financial risk profile
- Higher than expected debt funded capital expenditure resulting in deterioration in the financial flexibility.

Material Covenants

None

Outlook: Stable

Acuité believes RSPL will continue to benefit from the extensive experience of its promoters, and longstanding relationships with customers and suppliers. The outlook may be revised to 'Positive' in case of significant improvement in margins, liquidity, with timely enhancement of working capital limits and sustenance of existing capital structure. Conversely, the outlook may be revised to 'Negative' in case of decline in revenues or profit margins and stretch in working capital cycle or deterioration in the financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	541.21	594.38
PAT	Rs. Cr.	5.81	8.85
PAT Margin	(%)	1.07	1.49
Total Debt/Tangible Net Worth	Times	0.83	0.76
PBDIT/Interest	Times	1.93	2.01

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>
- 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
17-Feb-2021	Cash Credit	Long Term	32.50	ACUITE BB (Downgraded from ACUITE BB+) Issuer not co-operating*
	Term Loan	Long Term	40.00	ACUITE BB (Downgraded from ACUITE BB+) Issuer not co-operating*
	Letter of Credit	Short Term	6.00	ACUITE A4+ Issuer not co-operating*
	Bank Guarantee	Short Term	7.00	ACUITE A4+ Issuer not co-operating*
11-Dec-2019	Cash Credit	Long Term	32.50	ACUITE BB+ (Downgraded from ACUITE BBB-) Issuer not co-operating*
	Term Loan	Long Term	40.00	ACUITE BB+ (Downgraded from ACUITE BBB-) Issuer not co-operating*
	Letter of Credit	Short Term	6.00	ACUITE A4+

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
				(Downgraded from ACUITE A3+) Issuer not co-operating*
	Bank Guarantee	Short Term	7.00	ACUITE A4+ (Downgraded from ACUITE A3+) Issuer not co-operating*
19-Jul-2019	Cash Credit	Long Term	32.50	ACUITE BBB- Issuer not co-operating*
	Term Loan	Long Term	40.00	ACUITE BBB- Issuer not co-operating*
	Letter of Credit	Short Term	6.00	ACUITE A3+ Issuer not co-operating*
	Bank Guarantee	Short Term	7.00	ACUITE A3+ Issuer not co-operating*
21-May-2018	Cash Credit	Long Term	32.50	ACUITE BBB-/Stable (Assigned)
	Term Loan	Long Term	40.00	ACUITE BBB-/Stable (Assigned)
	Letter of Credit	Short Term	6.00	ACUITE A3+ (Assigned)
	Bank Guarantee	Short Term	7.00	ACUITE A3+ (Assigned)

***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	32.50	ACUITE BBB-/Stable (Upgraded)
Term Loan	Not Available	Not Available	Not Available	30.39	ACUITE BBB-/Stable (Upgraded)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	13.61	ACUITE BBB-/Stable (Upgraded)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A3 (Upgraded)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE A3 (Upgraded)

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About Acuité Ratings & Research:

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