

Press Release

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

June 27, 2022



Rating Upgraded

| Product | Quantum (Rs. Cr) | Long Term Rating | Short Term Rating |
|------------------------------------|------------------|--------------------------------|-----------------------|
| Bank Loan Ratings | 5.46 | - | ACUITE A3+ Upgraded |
| Bank Loan Ratings | 80.04 | ACUITE BBB Stable Upgraded | - |
| Total Outstanding Quantum (Rs. Cr) | 85.50 | - | - |
| Total Withdrawn Quantum (Rs. Cr) | 0.00 | - | - |

Rating Rationale

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

Rationale for rating upgrade

The rating of RSMPL is upgraded on account of significant improvement in the company's scale of operations and healthy financial risk profile. It also draws comfort from company's experienced management and established brand presence in the steel industry. The rating is however constrained by the company's susceptibility to volatility in raw material prices, intense competition and inherent cyclicity in the steel industry.

About the Company

RSMPL (erstwhile Rajuri Steels Private Limited) incorporated in the year 1990 and promoted by Mr. Dinesh Rathi 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 products are sold through 850 dealers across Maharashtra, Gujarat, Madhya Pradesh and Goa, under the 'Icon Steel' brand.

Analytical Approach

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

Key Rating Drivers

Strengths

Experienced management and established brand presence in steel industry

RSMPL has an established presence in the steel industry since 1990. The company has established its own brand 'Icon-500' which has a strong regional market recall for TMT bars. The key promoter Mr. Dinesh Rathi, has more than three 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, company has strong distribution network of 850 plus dealers which are spread across Maharashtra, Gujarat, Madhya Pradesh, Karnataka amongst others.

Acuité believes that RSMPL will continue to benefit from its experienced management, established brand presence and longstanding relationship with its customers and suppliers.

Healthy financial risk profile

Financial risk profile of RSMPL is healthy marked by healthy net worth, moderate gearing and healthy debt protection metrics. The net worth of the company has improved to Rs.123 Cr as on 31 March, 2022 as against Rs.115 Cr as on 31 March, 2021 on account of healthy accretion to reserves. It also includes the amount of Rs.30 Cr as quasi equity since the unsecured loans from promoters/directors infused into the business are subordinated to bank borrowings. The gearing (debt-equity) has increased to 0.77 times as on 31 March, 2022 as against 0.54 times as on 31 March, 2021. The gearing of the company is expected to improve and remain low over the medium term on account of absence of any debt funded capex plans in the future and modest incremental working capital requirements, which is likely to be funded by the cash accruals of the company. The total debt of Rs.95 Cr as on 31 March, 2022 consists of long term bank borrowings of Rs.31 Cr and short term working capital limit of Rs.64 Cr.

The interest coverage ratio stood comfortable at 4.09 times for FY2022 as against 2.73 times for FY2021. The DSCR also increased to 1.87 times for FY2022 as compared to 1.63 times for FY2021. The Net Cash Accruals to Total debt stood at same level of 0.25 times for FY2022 and FY2021. The Total outside liabilities to Tangible net worth has increased to 1.26 times for FY2022 as against 1.11 times for FY2021.

Acuité believes that the financial risk profile of RSMPL will remain healthy in near to medium term due to its improving operating performance, low debt levels vis-à-vis healthy tangible net worth and healthy debt protection metrics.

Improving operating performance

RSMPL has reported an increase in its scale of operations with revenues of Rs.783 Cr for FY2022 as against Rs.381 Cr in FY2021 and Rs.541 Cr. in FY2020. The decline in FY2021 was primarily on account disruptions caused by COVID 19 lockdowns. The revenue has been recovered in FY2022 and is primarily driven by increase in steel prices in the wider market. The volume growth however still remained subdued. Volumes stood at 1,54,056 units in FY2022 as against 90,575 units in FY2021 and 1,58,340 units in FY2020. The company has also increased its base of dealer network from 400 dealers in FY2021 to more than 850 dealers in FY2022 present across the states like Maharashtra, Gujarat, Madhya Pradesh, Karnataka, Rajasthan amongst others. Apart from that, the company has focused more on promoting its 'Icon Steel' brand of TMT Bars of various grades in FY2022 through TV & print media advertisement. The operating margin of the company further got improved and stood at 5.84 percent for FY2022 as against 5.69 percent for FY2021. Going forward recovery in RSMPL's volumes to pre covid levels will remain monitorable.

Acuité also believes that the ability of RSMPL to maintain its revenue while maintaining profitability will continue to remain a key rating sensitivity factor.

Weaknesses

Susceptibility of profitability margins to volatility in raw material prices

RSMPL will remain susceptible to seasonality in steel prices. The improvement in revenue in FY2022 is primarily driven by increase in steel prices in the wider market. Any volatility in the steel prices will adversely impact RSMPL's revenue and profitability. 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. RSMPL 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.

Rating Sensitivities

- Ability to maintain scale of operations and operating profitability
- Any deterioration in the financial risk profile on account of higher than expected debt addition

Material covenants

None

Liquidity Position - Adequate

RSMPL has adequate net cash accruals (NCA) to its maturing debt obligations. The company generated cash accruals in the range of Rs.13 Cr to Rs.24 Cr during FY2020 to FY2022 against its repayment obligation in the range of Rs.6 Cr to Rs.7 Cr during the same period. Going forward the NCA are expected in the range of Rs.35 Cr to Rs.37 Cr for period FY2023-FY2024 against repayment obligation in the range of Rs.8 Cr to Rs.9 Cr during the same period. The working capital operations of the company are highly efficient marked by its improved gross current asset (GCA) days of 69 days for FY2022 as against 99 days for FY2021. The average bank limit utilization for 6 months' period ended Mar 2022 stood at ~80 percent. Current ratio stands at 1.20 times as on 31 March 2022. The company has maintained cash & bank balance of Rs.2 crore in FY2022.

Acuité believes that the liquidity of RSMPL is likely to remain adequate over the medium term on account of adequate cash accruals against its maturing debt obligations.

Outlook: Stable

Acuité believes that RSMPL will maintain 'Stable' outlook over the medium term on account of its experienced management, healthy financial risk profile and increase in scale of operations. The outlook may be revised to 'Positive' in case of significant and sustained growth in revenue and profitability while effectively managing its working capital cycle and keeping the debt levels moderate. Conversely, the outlook may be revised to 'Negative' in case of lower than expected growth in revenue or deterioration in the financial and liquidity profile most likely as a result of higher than envisaged working capital requirements.

Key Financials

| Particulars | Unit | FY 22 (Actual) | FY 21 (Actual) |
|-------------------------------|---------|----------------|----------------|
| Operating Income | Rs. Cr. | 783.14 | 380.94 |
| PAT | Rs. Cr. | 16.37 | 7.72 |
| PAT Margin | (%) | 2.09 | 2.03 |
| Total Debt/Tangible Net Worth | Times | 0.77 | 0.54 |
| PBDIT/Interest | Times | 4.09 | 2.73 |

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

Not applicable

Any other information

None

Applicable Criteria

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

| Date | Name of Instruments/Facilities | Term | Amount (Rs. Cr) | Rating/Outlook |
|-------------|--------------------------------|------------|-----------------|---|
| 31 Mar 2021 | Letter of Credit | Short Term | 2.00 | ACUITE A3 (Upgraded from ACUITE A4+) |
| | Bank Guarantee | Short Term | 7.00 | ACUITE A3 (Upgraded from ACUITE A4+) |
| | Term Loan | Long Term | 30.39 | ACUITE BBB- Stable (Upgraded from ACUITE BB) |
| | Cash Credit | Long Term | 32.50 | ACUITE BBB- Stable (Upgraded from ACUITE BB) |
| | Proposed Bank Facility | Long Term | 13.61 | ACUITE BBB- Stable (Upgraded from ACUITE BB) |
| 17 Feb 2021 | Term Loan | Long Term | 40.00 | ACUITE BB (Downgraded and Issuer not co-operating*) |
| | Letter of Credit | Short Term | 6.00 | ACUITE A4+ (Issuer not co-operating*) |
| | Cash Credit | Long Term | 32.50 | ACUITE BB (Downgraded and Issuer not co-operating*) |
| | Bank Guarantee | Short Term | 7.00 | ACUITE A4+ (Issuer not co-operating*) |
| 11 Dec 2019 | Term Loan | Long Term | 40.00 | ACUITE BB+ (Issuer not co-operating*) |
| | Bank Guarantee | Short Term | 7.00 | ACUITE A4+ (Issuer not co-operating*) |
| | Cash Credit | Long Term | 32.50 | ACUITE BB+ (Issuer not co-operating*) |
| | Letter of Credit | Short Term | 6.00 | ACUITE A4+ (Issuer not co-operating*) |
| 19 Jul 2019 | 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*) |
| | Cash Credit | Long Term | 32.50 | ACUITE BBB- (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) |
| | Bank Guarantee | Short Term | 7.00 | ACUITE A3+ (Assigned) |
| | Letter of Credit | Short Term | 6.00 | ACUITE A3+ (Assigned) |

Annexure - Details of instruments rated

| Lender's Name | ISIN | Facilities | Date Of Issuance | Coupon Rate | Maturity Date | Quantum (Rs. Cr.) | Rating |
|----------------|----------------|-----------------------------------|------------------|----------------|----------------|-------------------|---|
| HDFC Bank Ltd | Not Applicable | Bills Discounting | Not Applicable | Not Applicable | Not Applicable | 5.00 | ACUITE A3+ Upgraded (from ACUITE A3) |
| Cosmos Bank | Not Applicable | Cash Credit | Not Applicable | Not Applicable | Not Applicable | 32.50 | ACUITE BBB Stable Upgraded (from ACUITE BBB-) |
| HDFC Bank Ltd | Not Applicable | Cash Credit | Not Applicable | Not Applicable | Not Applicable | 10.00 | ACUITE BBB Stable Upgraded (from ACUITE BBB-) |
| Not Applicable | Not Applicable | Proposed Short Term Bank Facility | Not Applicable | Not Applicable | Not Applicable | 0.46 | ACUITE A3+ Upgraded (from ACUITE A3) |
| HDFC Bank Ltd | Not Applicable | Term Loan | Not available | Not available | Not available | 17.00 | ACUITE BBB Stable Upgraded (from ACUITE BBB-) |
| Cosmos Bank | Not Applicable | Term Loan | Not available | Not available | Not available | 20.54 | ACUITE BBB Stable Upgraded (from ACUITE BBB-) |

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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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