Press Release

Ranba Castings Limited

May 11, 2021

Rating Assigned

Total Bank Facilities Rated*	Rs. 20.00 Cr
Long Term Rating	ACUITE B+ / Outlook: Stable (Assigned)
Short Term Rating	ACUITE A4 (Assigned)

** Refer Annexure for details*

Rating Rationale

Acuité has assigned its long-term rating of **'ACUITE B+' (read as ACUITE B Plus)** and short-term rating of **'ACUITE A4' (read as ACUITE A four)** on the Rs. 20.00 Cr bank facilities of Ranba Castings Limited (RCL). The outlook is **'Stable'**.

Coimbatore (Tamilnadu) based, Ranba Castings Limited (RCL) was incorporated in 1995 by Mr V Rajendran. RCL is currently managed by his sons, Mr. Velappan Rajendran Narenkumar and Mr. Velappan Rajendran Arunkumar. RCL is engaged in manufacturing of various grades of Grey iron and S.G. iron castings. It presently caters to domestic players in machine tools, pump Industries, Textile, General Engineering, Off High way and related segments. Its manufacturing facility is located in Coimbatore, Tamil Nadu with an installed production capacity of 700 metric ton (MT) per month.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of RCL for arriving at the rating.

Key Rating Drivers

Strengths

- **Extensive experience of promoters in casting industry resulting in well-established customer relationship**
  Incorporated in 1995, RCL has a long track record of manufacturing grey iron and SG (Spheroidal Graphite) iron castings that find applications in diverse industries. RCL is currently managed by Mr. Velappan Rajendran Narenkumar and Mr. Velappan Rajendran Arunkumar, who have nearly two decades of experience in the castings business and is well supported by a qualified and experienced management team. This has given them a strong understanding of the market dynamics and enabled them to establish healthy relationships with suppliers and customers for repeated business. Acuité believes that RCL's business risk profile is strong supported by the promoter's vast experience and the company's longstanding presence in the castings industry, supplying components to diverse end-user industries and longstanding relationships with key customers should continue to support the business over the medium term.

Weaknesses

- **Below-Average financial risk profile**
  RCL's financial risk profile is below-average, marked by a low net worth, highly leveraged capital and weak debt protection metrics on account of operating losses. RCL's net worth stood at Rs.3.60 Cr as on March 31, 2020 as against Rs.7.45 Cr as on March 31, 2019. The net worth eroded due to net loss Rs. 3.86 posted in FY2020. RCL's capital structure is leveraged marked by its high gearing (debt-to-equity) and high total outside liabilities to tangible networth (TOL/TNW) ratio of 5.58 times and 3.19 times, respectively, as on March 31, 2020 vis-à-vis 10.20 times and 6.90 times as on March 31, 2019. Debt protection metrics are weak, reflected in its interest coverage (ICR) and net cash accrual to total debt ratio (NCA/TD) of -0.74 times and -0.14 times, respectively, in FY2020 vis-à-vis 0.76 times and 0.06 times for FY2019. Net cash accrual is negative, against significant repayment obligation towards a working capital term loan. Liquidity is aided by timely support from the promoters; Rs 4.27 Cr and Rs 3.11 Cr was

received in fiscals 2019 and 2020, respectively, in the form of unsecured loans, and Rs 8.30 Cr WCTL and GECL Loan Rs.2.58 Cr and FITL loan Rs.1.37 Cr is received in FY 2021 against repayment obligation of Rs 2.29 Cr. Acuité believes that such support is expected to continue over the medium term and will remain a key monitorable.

- **Working capital intensive nature of operations**
  RCL's operations are highly working capital intensive marked by its gross current assets (GCA) of 151-292 days in the last three years through March 31, 2020 due to an elongated receivable cycle and high inventory levels to meet orders in a timely manner. RCL receivables were at 99-146 days and Inventory days at 50-136 days over the last three years through FY2020. However, it gets a high credit period from its suppliers, which provides comfort to the working capital position to a certain extent. Its creditor days stood at 155-299 days during last three years ended March 31, 2020. Its bank limits are utilised at 77 percent during last six months through March 2021. Acuité expects the operations of the company to remain working capital intensive on account of diversified customer base requiring maintenance of high inventory levels.

- **Significant decline in revenues during FY2020 and vulnerability of earnings to the fluctuation in raw material costs and competitive pressure**
  The scale of operations is moderate as reflected in turnover of Rs.30.80 Cr in FY 2020, which was declined significantly by 66 percent from Rs.91.87 Cr in FY2019 owing to discontinuation of the small castings business. RCL's profit margins are susceptible to fluctuations in the prices of raw materials, (sponge iron and mild steel scrap). On account of variation in raw material prices, the operating margin has also been volatile. Furthermore, profitability is linked to the fortunes of the inherently cyclical iron and steel industry, which has strong correlation with overall growth in gross domestic product. Operating performance will remain susceptible to volatility in raw material prices and offtake by key user sectors. Operating margin declined from 5.71 percent in FY2018 to 2.81 percent in FY2020. The company incurred a net loss of Rs. 3.86 Cr FY2020 (led by lower absorption of fixed overheads because of decline in sales in FY2020. During FY2021, RCL revenues are expected to be below Rs.30 Cr. Acuité expects its profitability and revenue to be under pressure in the near-term on account of weak economic outlook due to the Covid-19 pandemic. In the long-term, the company will require significant growth in its scale of operations to turn profitable.

Liquidity Position: Poor

RCL's liquidity is poor marked by negative net cash accrual as against significant repayment obligation towards a working capital term loan. RCL has debt obligation of around Rs 2.29 Cr in fiscal 2021. Internal accruals are not sufficient to meet the debt obligation. One-time restructuring (OTR) was done in September 2020 on debt facilities under Reserve Bank of India (RBI) guidelines issued on August 06, 2020 - 'Resolution Framework for COVID-19-related Stress' to address liquidity stress. The current ratio was inadequate at 0.73 time and the cash balance low Rs.0.11 Cr as on March 31, 2020. RCL's operations are working capital intensive marked by its gross current assets (GCA) of 151-292 days during last 3 years ending March 31, 2020. Its working capital credit limits were utilised at about 77 per cent during the last 6 months period ended March 2021. Acuité believes that the liquidity of RCL is likely to remain poor over the near term on account of expected declined growth in revenue and profitability resulting in low cash accruals to its high maturing debt obligations.

Rating Sensitivities

- Improvement in scale of operations while maintaining the profitability margins
- Stretch in working capital cycle, leading to an increase in working capital borrowings and weakening of financial risk profile and liquidity
- Improvement in the financial risk profile, driven by increase in accrual leading to interest cover of over 1 time on a sustained basis
- Timely promoter fund support to meet the repayment obligations

Outlook: Stable

Acuité believes that RCL will maintain a 'Stable' outlook over the medium term backed by its experienced management and long track record of operations. The outlook may be revised to 'Positive' in case of substantial and sustained increase in the scale of operations, while profitability margins are maintained or continued improvement in working capital management. The outlook may be revised to 'Negative' if profitability margins decline sharply, or the capital structure deteriorates due to large, debt-funded capital expenditure or a stretched working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	30.80	91.87
PAT	Rs. Cr.	(3.86)	0.09
PAT Margin	(%)	(12.54)	0.10
Total Debt/Tangible Net Worth	Times	5.88	3.19
PBDIT/Interest	Times	(0.74)	1.57

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

None

Any other information

None

Any Material Covenants

None

Applicable Criteria

- Default Recognition - https://www.acuite.in/view-rating-criteria-52.htm
- Financial Ratios And Adjustments -https://www.acuite.in/view-rating-criteria-53.htm
- Manufacturing Entities - https://www.acuite.in/view-rating-criteria-59.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	6.00	ACUITE B+/Stable (Assigned)
Working Capital Term Loan	Not Applicable	Not Applicable	Not Applicable	8.30	ACUITE B+/Stable (Assigned)
Working Capital Term Loan	Not Applicable	Not Applicable	Not Applicable	2.58	ACUITE B+/Stable (Assigned)
Funded Interest Term Loan	Not Applicable	Not Applicable	Not Applicable	0.92	ACUITE B+/Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	2.20	ACUITE A4 (Assigned)

Contacts

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