



Press Release
ROYAL ISPAT UDYOG
August 10, 2023
Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	18.18	ACUITE BBB- Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	18.18	-	-

Rating Rationale

Acuite has assigned its long-term rating of '**Acuite BBB-**' (read as **Acuite triple B minus**) on the Rs. 18.18 Cr bank facilities of **Royal Ispat Udyog (RIU)**. The outlook is '**stable**'.

Rationale for the rating

The rating assigned reflects an improvement in the overall business risk profile of the group, marked by an increase in operating income and steady profitability arising from improved realisations. The revenue of the group has increased at a CAGR of 27% for the last 4 years through FY 2023. The revenue of the group has increased and stood at Rs 665.26 crore in FY 2023 (prov) as against Rs 557.37 crore in FY 2022 and Rs 378.94 crore in FY 2021. The rating also factors in the group's experienced management and efficient collection mechanism. These strengths are, however, constrained by the inherent cyclicity of the steel business and the intense competition in the industry, which makes margins and cash flows vulnerable to fluctuations in prices and demand. Further, it also factors in the moderate financial risk profile of the group, characterised by moderate debt coverage indicators.

About the Company

Incorporated in 2008, **Royal Ispat Udyog (RIU)** is the flagship company of the Royal Group, based out of Punjab. The firm is engaged in the manufacturing of MS Flats, with a total installed capacity of 75,000 MTPA.

About the Group

Royal Group is a Punjab-based group engaged in the manufacturing of flat steel products with a cumulative capacity of 1,10,000 MTPA. The group is promoted by Mr. Sanjiv Sood along with his friends and family members. The promoters have more than three decades of experience in the iron and steel industry. Both Royal Alloys and Royal Ispat Udyog source ingots from one of their group companies, Royal Concast, with an installed capacity of 29000 MTPA.

Incorporated in 2018, Royal Alloys (RA) is a partnership firm based in Mandi Gobindgarh, Punjab. The firm is engaged in the manufacturing of MS Flats, with a total installed capacity of 35,000 MTPA.

Analytical Approach

Extent of consolidation

Full consolidation

Rationale for consolidation or Parent/Group/Govt. support

ACUITE has considered the consolidated financials of Royal Alloys and Royal Ispat Udyog. The consolidation is on account of the common management, same line of operations and

significant operational and financial fungibility.

Key Rating Drivers

Strengths

Long track record of operations for the group and experienced management

The group has had a long operational track record in the iron and steel industry for around one and a half decades. Royal Group is a Punjab-based group engaged in the manufacturing of flat steel products and ingots. Further, the key promoter of the group, Mr. Sanjeev Sood, has more than two decades of experience in the iron and steel industry. He is ably supported by other highly qualified and experienced promoters. Moreover, the promoters are resourceful and have also supported the group companies by infusing unsecured loans as and when required to support the business operations.

Acuité believes that the long operational track record of the group coupled with the extensive experience of the management will continue to benefit the group going forward, resulting in steady growth in the scale of operations.

Steady business risk profile

The group witnessed an improvement in its scale of operations, marked by its revenue of Rs. 557.37 crore in FY2022 as against Rs. 378.94 crore in FY2021. The group has been able to scale up operations on account of increased average realisation and sales volume of Ms. Flats on the back of rising demand from end user segments. Further, the group has achieved a revenue of Rs. 665.26 crore in FY2023 (Prov), thereby registering a CAGR of 27 percent for FY20–23. The semi-integrated nature of operations provides the group with the flexibility to use them for captive consumption.

Acuite believes the scale of operation will remain almost at the same level in the near to medium term on account of almost full utilisation of installed capacity with no expected capex in the near term.

The EBITDA margin of the group moderated to 3.26 percent in FY2022 as against 3.45 percent in FY2021 due to an increase in power and fuel costs. The group registered an EBITDA margin of 3.41 percent in FY2023 (Prov). The group has a semi-integrated nature of operations, having manufacturing facilities for ingots and MS flats. Raw material consumption is the single largest cost component of the group (constituting 90% of sales in FY2022). The group does not have integration for sponge iron and captive power plants and has to source the same from the open market, leading to pressure on the operating margins.

Acuite expects the operating margin to be range-bound between 3.4 and 3.5 percent in the near and medium term on account of the semi-integrated nature of operations and reliance on external power sources.

Efficient working capital management

The efficient working capital management of the group is marked by improved GCA days of 73 days in FY2022 as against 83 days in FY2021. The improvement in GCA days is on account of an improved debtor period of 26 days in FY2022 as against 45 days in FY2021 due to an efficient collection mechanism. Further, the inventory period stood comfortably at 24 days in FY2022 as against 22 days in FY2021. The group maintained GCA days at a comfortable level of 69 days in FY2023 (estimated).

Acuité believes that the working capital requirement is likely to remain at similar levels in the near and medium term.

Weaknesses

Moderate financial risk profile

The group's financial risk profile is marked by a moderate net worth base, low gearing, and moderate debt protection metrics. The tangible net worth of the group increased to Rs. 74.69 crore as of March 31, 2022, from Rs. 62.40 crore as of March 31, 2021, due to the ploughing back of profits. Further, the tangible net worth of the group increased to Rs. 82.93 crore as of March 31, 2023 (prov). Acuité has considered unsecured loans of Rs. 49.90 crore as of March

31, 2022, as quasi-equity as the management has undertaken to maintain the amount in the business over the medium term. The group follows a conservative financial policy, as reflected by its peak gearing of 0.63 times as of March 31, 2021. The gearing of the group stood comfortably at 0.40 times as of March 31, 2022, as against 0.63 times as of March 31, 2021, and continued to remain at a low level at 0.53 times as of March 31, 2023 (Prov.). The Total Outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 0.92 times as of March 31, 2022, as against 1.04 times as of March 31, 2021, and continued to remain at comfortable levels at 0.89 times as of March 31, 2023 (Prov.). Moreover, the moderate debt protection metrics are marked by an interest coverage ratio (ICR) of 1.85 times as of March 31, 2022, and a debt service coverage ratio of 1.47 times as of March 31, 2022. Further, the interest coverage ratio and debt service coverage ratio remained moderate at 1.88 times and 1.57 times, respectively, as of March 31, 2023 (Prov.). The Net Cash Accruals/Total Debt (NCA/TD) stood at 0.29 times as of March 31, 2022, and is expected to remain almost at the same levels in the near term.

Acuité believes that going forward, the financial risk profile of the group is likely to be sustained, backed by steady accruals and no major debt-funded capex plans.

Inherent cyclical nature of the steel industry

The group's performance remains vulnerable to cyclical nature in the steel sector given the close linkage between the demand for steel products and the domestic and global economies. The end-user segments such as real estate, civil construction, and engineering also display cyclical nature. Further, operating margins are vulnerable to volatility in the input prices (sponge iron, iron ore, and coal) as well as realisation from finished goods. The prices and supply of the main raw material, sponge iron, directly impact the realisation of finished goods. Any significant reduction in demand and prices adversely impacting the operating margins and cash accruals of the group will remain a key monitorable.

Rating Sensitivities

- Sustainability in revenue growth and profitability margins
- Elongation of working capital cycle
- Sustenance of capital structure

Material covenants

None.

Liquidity Position Adequate

The group's liquidity position is adequate, marked by net cash accruals of Rs. 8.80 crore in FY 2022 as against long-term debt repayment of only Rs. 2.72 crore over the same period. The current ratio stood comfortably at 1.91 times as of March 31, 2022, as compared to 2.05 times as of March 31, 2021. Further, the fund-based limits remained moderately utilised at 87.22 percent for the six months ended February 2023. The cash and bank balances of the group stood at Rs. 4.69 crore in FY2022 as compared to Rs. 12.37 crore in FY2021. Moreover, the working capital management of the group is efficient, as evidenced by gross current assets (GCA) of 73 days in FY2022 as compared to 83 days in FY2021.

Acuité believes that going forward the company will maintain adequate liquidity position due to steady accruals.

Outlook: Stable

Acuité believes that the outlook on the group will be 'Stable' over the medium term on account of the long track record of operations, experienced management, sound business risk profile and average financial risk profile. The outlook may be revised to 'Positive' in case of significant growth in revenue while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in the group's revenues or profit margins, or in case of deterioration in the group's financial risk profile and liquidity position or further elongation in its working capital cycle.

Other Factors affecting Rating

None.

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	557.37	378.94
PAT	Rs. Cr.	6.00	4.58
PAT Margin	(%)	1.08	1.21
Total Debt/Tangible Net Worth	Times	0.40	0.63
PBDIT/Interest	Times	1.85	1.84

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>
- Entities In Manufacturing Sector:- <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.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 :

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Axis Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	15.00	ACUITE BBB- Stable Assigned
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	2.55	ACUITE BBB- Stable Assigned
Axis Bank	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	Simple	0.63	ACUITE BBB- Stable Assigned

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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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