Press Release
Royal Ispat Udyog
November 04, 2024
Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	18.18	ACUITE BBB- | Stable | Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	18.18	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale
Acuité has reaffirmed its long-term rating of '**ACUITE BBB-' (read as ACUITE triple B minus**o**)**n the Rs. 18.18 Cr. bank facilities of Royal Ispat Udyog (RIU). The outlook remains **'Stable'.**

Rationale for the rating
The rating reaffirmation reflects the established track record of operations and the extensive industry experience of the group's partners in the steel industry for more than two decades. The rating also factors in the group's efficient working capital management. Additionally, it considers the stable scale of operations, with the group's revenue marginally declining to Rs. 674.45 Cr. in FY24 from Rs. 692.97 Cr. in FY23, albeit with improved margins. The group recorded an estimated revenue of Rs. 295.30 Cr. in the first half of FY25. Furthermore, the company has been able to sustain its profitability margins over the last three financial years despite volatility in steel prices. However, the rating is constrained by a moderate financial risk profile, characterized by moderate net worth and debt protection metrics. The inherent cyclicality of the steel business and intense competition in the industry make margins and cash flows vulnerable to fluctuations in prices and demand.

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 2 decades of experience in Iron & Steel Industry. Both, Royal Alloys and Royal Ispat Udyog source ingots from one of their group company, Royal Concast with an installed capacity of 29000 MTPA.

Unsupported Rating
Not Applicable

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.
The long-standing experience of the partners and long track record of operations has helped the company to establish healthy relationships with key suppliers and customers. The experience of the partners is also evident through the stable scale of operations, Despite a marginal decline in revenue from Rs. 692.97 Cr. in FY23 to Rs. 674.45 Cr. in FY24, the group's operating margin improved to 3.74% in FY24 from 3.27% in FY23, driven by reduced power and fuel costs following the transition from a steam coal-fired furnace to a gas-fired furnace. Similarly, the PAT margin saw a marginal increase to 1.09% in FY24 from 1.01% in FY23. Furthermore, the company achieved a revenue of around Rs 295.30 Cr. (Est) in H1 FY25.
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.

Efficient working capital management

The working capital operations of the group are efficient in nature marked by GCA days of 84 in FY2024, compared to 75 days in FY2023. This increase is primarily due to higher debtor days, which extended to 32 days as of March 31, 2024, from 21 days as of March 31, 2023. The average collection period ranges from 25 to 40 days. As of September 2024, the group's debtors amounted to Rs. 50.55 Cr., with 96% of debtors being less than six months old. Inventory days stood at 29 as of March 31, 2024, down from 34 days as of March 31, 2023, with the group typically holding inventory for around 30 days. Additionally, creditor days were 18 in FY2024, compared to 23 days in the previous year, with an average credit period of 15 to 20 days.
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 financial risk profile of the group stood moderate, marked by moderate net worth, low gearing and moderate debt protection metrics. Acuite has considered Rs. 53.41 Cr. of USL as part of quasi equity, as the management has undertaken to maintain the amount in the business over the medium term. The net worth of the group stood at Rs. 92.01 Cr. in FY 2024 as compared to Rs 87.00 Cr. in FY 2023. This improvement in net-worth is mainly due to the retention of current year profit. The gearing of the group has stood low at 0.69 times as on 31st March 2024 as compared to 0.54 times as on 31st March 2023. The gearing is expected to improve in the near term on account of absence of any debt funded capex plans and gradual repayment of the loans. The TOL/TNW of the group stood at 1.08 times as on 31st March 2024 as against 1.03 times 31st March 2023. Further, debt protection metrics stood moderate with Interest Coverage Ratio (ICR) stood at 1.59 times as on 31st March 2024 as against 1.74 times as on 31st March 2023. The Debt Service Coverage Ratio (DSCR) of the group stood at 1.36 times as on 31st March 2024 as compared to 1.47 times in the previous year. The Debt-EBITDA of the group stood at 2.33 times in as on 31st March 2024 as against 2.05 times as on 31st March 2023. The net cash accruals to total debt (NCA/TD) stood at 0.16 times as on 31st March 2024 as compared to 0.21 times in the previous year.
Going ahead, the team expects the financial risk profile to improve in the near term on account of absence of any debt funded capex plans and gradual repayment of the loans.

Inherent cyclical nature of the steel industry

The group's performance remains vulnerable to cyclicality 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 cyclicality. 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

Liquidity Position

Adequate

The group's liquidity position is adequate, marked by net cash accruals of Rs. 10.11 Cr. in FY 2024 as against its maturity debt obligations of Rs. 2.87 Cr. in the same tenure. In addition, it is expected to generate a sufficient cash accrual in the range of Rs. 10.53 – 12.28 Cr. as against its maturing repayment obligations of Rs. 5.84 – 5.87 Cr. over the medium term. The current ratio stood comfortably at 2.13 times as of March 31, 2024, as compared to 1.82 times as of March 31, 2023. Further, the fund-based limits remained moderately utilised at 77 percent for the six months ended September 2024. The cash and bank balances of the group stood at Rs. 4.71 Cr. in FY2024 as compared to Rs. 7.95 Cr. in FY2023. Moreover, the working capital management of the group is efficient, as

evidenced by gross current assets (GCA) of 84 days in FY2024 as compared to 75 days in FY2023.
Acuité believes that going forward the company will maintain adequate liquidity position due to steady accruals.

Outlook:
Stable

Other Factors affecting Rating
None

Key Financials

Particulars	Unit	FY 24 (Actual)	FY 23 (Actual)
Operating Income	Rs. Cr.	674.45	692.97
PAT	Rs. Cr.	7.35	7.03
PAT Margin	(%)	1.09	1.01
Total Debt/Tangible Net Worth	Times	0.69	0.54
PBDIT/Interest	Times	1.59	1.74

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

Not applicable

Any Other Information

None

Applicable Criteria

• Application Of Financial Ratios And Adjustments: https://www.acuite.in/view-rating-criteria-53.htm
• Default Recognition: https://www.acuite.in/view-rating-criteria-52.htm
• Manufacturing Entities: https://www.acuite.in/view-rating-criteria-59.htm

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuité 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
10 Aug 2023	Working Capital Term Loan	Long Term	0.63	ACUITE BBB- | Stable (Assigned)
	Proposed Long Term Bank Facility	Long Term	2.55	ACUITE BBB- | Stable (Assigned)
	Cash Credit	Long Term	15.00	ACUITE BBB- | Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Complexity Level	Rating
Axis Bank	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	15.00	Simple	ACUITE BBB- | Stable | Reaffirmed
Not Applicable	Not avl. / Not appl.	Proposed Long Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	0.33	Simple	ACUITE BBB- | Stable | Reaffirmed
Axis Bank	Not avl. / Not appl.	Term Loan	30 Mar 2023	Not avl. / Not appl.	29 Mar 2028	2.65	Simple	ACUITE BBB- | Stable | Reaffirmed
Axis Bank	Not avl. / Not appl.	Working Capital Term Loan	31 Oct 2021	Not avl. / Not appl.	30 Sep 2024	0.20	Simple	ACUITE BBB- | Stable | Reaffirmed

*Annexure 2 - List of Entities (applicable for Consolidation or Parent / Group / Govt. Support)

Sr. No	Company Name
1	Royal Alloys
2	Royal Ispat Udyog

Contacts

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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.