Press Release
ROYAL CONCAST
November 08, 2023
Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	14.45	ACUITE BB | Stable | Assigned	-
Total Outstanding Quantum (Rs. Cr)	14.45	-	-

Rating Rationale

Acuite has assigned its long term rating of **'ACUITE BB' (read as ACUITE double B)** on the Rs. 14.45 Cr bank facilities of Royal Concast (RC). The outlook is '**Stable'.**

Rating Rationale

The rating assigned factors in the experience of the partners of more than two decades in the iron and steel industry, moderate scale of operations marked by an operating income of Rs.165.04 Cr in FY2023 and comfortable level of coverage indicators (ICR: 1.70 times and DSCR: 1.23 times as on March 31, 2023). The rating also favourably factors in the efficient working capital management marked by GCA days of 53 days in FY2023. The rating also considers the adequate liquidity position of the company marked by sufficient cushion in the net cash accruals, however Acuite notes high level of fund-based limit utilisation which stood at ~92.61 per cent for the last six months ended August 2023. These strengths are partly offset by thin profitability margins owing to non-integration of sponge iron and reliance on external power sources and inherent cyclical nature of steel industry.

About the Company

Incorporated in 2017, Royal Concast (RC) is a partnership firm based in Punjab. The firm is engaged in the manufacturing of ingots with a total installed capacity of 29000 MTPA.

Unsupported Rating

Not Applicable

Analytical Approach

Acuite has considered the standalone business and financial risk profile of RC to arrive at the rating.

Key Rating Drivers

Strengths

Experienced management and Moderate business risk profile

The Majority Partner of the firm, Mr. Rajiv Kumar Sood, has more than two decades of experience in the iron and steel industry, through his association with other group companies. He is ably supported by other highly qualified and experienced promoters. Moreover, the promoters are resourceful and have also supported the firm by infusing unsecured loans as and when required to support the business operations. Acuité believes that the long operational track record of the Royal group coupled with the long experience of the management might continue to benefit the group going forward, resulting in steady growth in

the scale of operations.
The operating income of the firm increased to Rs.165.04 Cr in FY2023 as against Rs.138.11 Cr in FY2022, thereby registering an y-o-y growth of 19.50 per cent. The increase in revenue is

attributed to increase in both sales volume and average realisations. Further, the firm has achieved a revenue of Rs.68.66 Cr in Apr'23-Aug'23.
The profitability margins are modest because of absence of backward integration of sponge iron plant and no captive power plant. The EBITDA margin declined and stood at 1.31 per cent in FY2023 as against 1.70 per cent in FY2022 due to increased material cost during the year. Further, the PAT margin stood at 0.57 per cent in FY2023 as compared to 0.58 per cent in FY2022. Acuite expects the operating margin to be range bound between in the near to medium term on account absence of backward integration of sponge iron plant and reliance on external power source.

Efficient working capital management
The efficient working capital management of the firm is marked by GCA days of 53 days in FY2023 as against 54 days in FY2022 due to better inventory and debtor management. Inventory days stood at 23 days in FY2023 as against 24 days in FY2022; debtor period also stood improved at 22 days in FY2023 as against 27 days in FY2022. Acuité believes that the working capital requirement is likely to remain at similar levels in the near to medium term.

Weaknesses

Average financial risk profile
The firm's financial risk profile is marked by modest net worth base, moderate gearing and moderate debt protection metrics. The tangible net worth of the firm increased to Rs.10.03 Cr as on March 31, 2023 from Rs.8.60 Cr as on March 31, 2022, due to ploughing back of profits. Acuité has considered unsecured loans of Rs.3.30 Cr as on March 31, 2022, as quasi-equity as the management has undertaken to maintain the amount in the business over the medium term. Gearing of the firm stood at 1.55 times as on March 31, 2023 as against 1.54 times as on March 31, 2022. The Total Outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 2.04 times as on March 31, 2023 as against 2.16 times as on March 31, 2022. Moreover, the moderate debt protection metrics is marked by Interest Coverage Ratio of 1.70 times as on March 31, 2023 as against 1.72 times as on March 31, 2022; and Debt Service Coverage Ratio at 1.23 times as on March 31, 2023 as against 1.24 times as on March 31, 2022. The Net Cash Accruals/Total Debt (NCA/TD) stood at 0.10 times as on March 31, 2023 as against 0.11 times as on March 31, 2022. Acuité believes that going forward the financial risk profile of the firm will be sustained backed by moderate accruals and no major debt funded capex plans.

Inherent cyclical nature of the steel industry
The firm'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 economy. 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 impacts the realisations of finished goods. Any significant reduction in the 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

All Covenants
None.

Liquidity Position
Adequate

The firm's liquidity position is adequate marked by net cash accruals of Rs.1.50 Cr in FY2023 as against long term debt repayment of only Rs.0.81 Cr over the same period. The current ratio improved and stood moderate at 1.47 times as on March 31, 2023 as compared to 1.34 times as on 31st March, 2022. However, the fund-based limits remained highly utilized at ~92.61 per cent for six months ended August 2023. The cash and bank balances of the company stood at Rs.1.10 Cr as on March 31, 2023. Moreover, the working capital management of the company is efficient marked by Gross Current Assets (GCA) of 53 days in FY2023 as compared to 54 days in FY2021. Acuité believes that going forward the company will maintain adequate liquidity position on account of steady accruals.

Outlook: Stable

Acuité believes that the outlook on the RC will be 'Stable' over the medium term on account of the long track record of operations, experienced management, moderate 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 RC's revenues or profit margins, or in case of deterioration in the RC's financial risk profile and liquidity position or elongation in its working capital cycle.

Other Factors affecting Rating

None.

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	165.04	138.11
PAT	Rs. Cr.	0.95	0.80
PAT Margin	(%)	0.57	0.58
Total Debt/Tangible Net Worth	Times	1.55	1.54
PBDIT/Interest	Times	1.70	1.72

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

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 :

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	12.00	ACUITE BB | Stable | Assigned
Axis Bank	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	Simple	2.22	ACUITE BB | Stable | Assigned
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	0.23	ACUITE BB | 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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