



Press Release
ROYAL CONCAST
January 17, 2025
Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	1.80	ACUITE BB Stable Assigned	-
Bank Loan Ratings	14.45	ACUITE BB Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	16.25	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

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

Acuite has assigned the long term rating of '**ACUITE BB**' (read as **ACUITE double Bo**)n the Rs. 1.80 Cr. bank facilities of Royal Concast (RC). The outlook is '**Stable**'.

Rationale for Rating

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.160.30 Cr. in FY24 and comfortable albeit moderate level of coverage indicators (ICR: 1.58 times and DSCR: 1.21 times as on March 31, 2024). The rating also favorably factors in the efficient working capital management marked by GCA days of 56 days in FY24 and adequate liquidity position of the firm marked by sufficient cushion in the net cash accruals. However, Acuite notes high level of fund-based utilization which stood at ~91.66% for the last six months ended September-2024. These strengths are partly offset by thin profitability margins, 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

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.

Efficient working capital management

The efficient working capital management of the firm is marked by GCA days of 56 days in FY24 as against 53 days in FY23 due to a change in the prices of the finished goods. Inventory days stood at 24 days in FY24 as against 23 days in FY23. The debtor and the creditor period were observed to be on similar levels for FY24 when compared to FY23. Acuité believes that the working capital requirement is likely to remain at similar levels in the near to medium term.

Moderate business risk profile

The operating income of the firm slightly moderated to Rs.160.30 Cr. in FY24 as against Rs.165.04 Cr. in FY23, thereby registering a decline of 2.87% because of a decrease in the prices of finished goods. Further, the revenue of the firm stands at Rs. 76.44 Cr. for H1-FY25 and they aim to achieve the mark of Rs. 165 Cr. for FY25. Acuite expects slight moderation in the operating income on account of increased volume of sales albeit absence of backward integration of sponge iron plant and reliance on external power source.

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 slightly decreased to Rs. 9.69 Cr. in FY24 from Rs.10.03 Cr. in FY23 on account of withdrawal of Quasi Equity worth Rs. 1.29 Cr. but infusion of capital fund of Rs. 0.95 Cr. by three new partners. Acuité has considered unsecured loans of Rs.2.01 Cr. as on March 31, 2024, as quasi-equity as the management has undertaken to maintain the amount in the business over the medium. Gearing of the firm slightly declined to 1.84 times for FY24 as against 1.55 times for FY23 because of the increase in short-term borrowings. Moreover, slight moderation in the debt protection metrics has been observed wherein the Interest Coverage Ratio has decreased to 1.58 times in FY24 from 1.70 times in FY23 and the Debt Service Coverage Ratio saw a mild moderation to 1.21 times in FY24 from 1.23 times in FY23. However, going forward the firm plans to repay the long-term debts which will help them to support the debt protection metrics.

Inherent cyclical nature of the steel industry

The firm's performance remains vulnerable to cyclicity 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 cyclicity. Further, operating margins are vulnerable to volatility in the input prices (sponge iron, iron ore and coal) as well as realization from finished goods. The prices and supply of the main raw material, sponge iron, directly impacts on the realizations of finished goods.

Further the global disruption in the steel prices because of the slowdown in the infra market of China has led China to increase export to other countries leading to an increased supply and decreased prices in the global market. 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 firm's liquidity position is adequate marked by net cash accruals of Rs.1.54 Cr. in FY24 as against long-term debt repayment of only Rs. 0.82 Cr. over the same period. The current ratio decreased to 1.32 times for FY24 as compared to 1.47 times for FY23 because of the increase in the short-term debt. However, the fund-based limits remained highly utilized at ~91.66% for six months ended September 2024. Moreover, the working capital management of the firm is efficient marked by Gross Current Assets (GCA) of 56 days in FY24. Acuité believes that going forward the firm will maintain adequate liquidity position on account of steady accruals, absence of capex plans, efficient working capital cycle albeit moderation in current ratio and high dependence on bank borrowings.

Outlook : Stable

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 24 (Actual)	FY 23 (Actual)
Operating Income	Rs. Cr.	160.30	165.04
PAT	Rs. Cr.	1.05	0.95
PAT Margin	(%)	0.66	0.57
Total Debt/Tangible Net Worth	Times	1.84	1.55
PBDIT/Interest	Times	1.58	1.70

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

Not Applicable

Any other information

None

Applicable Criteria

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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook	
08 Nov 2023	Covid Emergency Line.	Long Term	2.22	ACUITE BB	Stable (Assigned)
	Cash Credit	Long Term	12.00	ACUITE BB	Stable (Assigned)
	Proposed Long Term Bank Facility	Long Term	0.23	ACUITE BB	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.	12.70	Simple	ACUITE BB Stable Reaffirmed
Axis Bank	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	1.80	Simple	ACUITE BB Stable Assigned
Axis Bank	Not avl. / Not appl.	Working Capital Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	31 May 2027	1.75	Simple	ACUITE BB Stable Reaffirmed

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About Acuité Ratings & Research

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