

Press Release

RAJURI STEELS AND TMT BARS PRIVATE LIMITED

July 23, 2024

Rating Assigned



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	136.00	ACUITE BB+ Stable Assigned	-
Bank Loan Ratings	45.00	-	ACUITE A4+ Assigned
Total Outstanding Quantum (Rs. Cr)	181.00	-	-

Rating Rationale

Acuite has assigned its long-term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) and short-term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) to the Rs. 181 crore bank facilities of Rajuri Steels and TMT Bars Private Limited (RSTPL). The outlook is '**Stable**'.

Rationale for Rating Assigned

The rating assigned considers the track record of operations of almost two decades in this line of business along with experienced management. Further, it factors in the growing scale of operations with operating income at Rs. 1,146.58 Cr. crore in FY2024 (Prov.) as against Rs. 933.52 Cr. in FY2023 and Rs. 737.28 Cr. in FY2022, attributed to increase in the number of units sold although the price realisation has declined. The rating favourably factors in the above average financial risk profile of the company marked by moderate net worth, average gearing (debt-equity) and average debt protection metrics as on March 31st, 2024 (Prov.). Further, it considers the adequate liquidity position of the company with high utilizations of fund-based limit of 80-85% and non-fund-based limits of 80% in the last 6 months ending May 2024. However, the above-mentioned strengths are constrained by moderate working capital nature of operations with GCA days of 64 days in FY 2024 (Prov.) and the intense competition in the industry, which makes margins and cash flows vulnerable to fluctuations in prices and demand.

About the Company

Incorporated in 2004, Rajuri Steels and TMT Bars Private Limited (RSTPL) is engaged in the manufacturing of TMT bars from billets which is produced and consumed captively. The product of RSTPL finds its application primarily in capital and engineering goods and infrastructure. RSTPL has a track record of 20 year of operations and has network with more than 1,200 dealers and 400 distributors in Maharashtra, Karnataka, Gujarat, Madhya Pradesh, Andhra Pradesh and Rajasthan.

The company is managed by Kailash Loya (managing director) along with other directors namely Santosh Mundada, Shivkumar Lohiya, Purushottam Toshniwal and Vijay Bharadiya. The directors have wide experience in different industries such as steel, fertilisers, agriculture, among others.

Unsupported Rating

Not Applicable

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of Rajuri Steels and TMT Bars Private Limited (RSTBPL) to arrive at the rating.

Key Rating Drivers

Strengths

Experienced management and long track record of operations

Incorporated in 2004 RSTPL is engaged in the manufacturing of TMT Bars and billets with its plant located at Jalna, Maharashtra. The promoters of the company have over 20 years of operational experience and a profound understanding of the industry which has not only helped them to shape the strategic vision of the company but has also been pivotal in establishing enduring relationships with both customers and suppliers. The company sells its product to the dealers at a premium of ~Rs.400-500 per tonne due to the brand value of the company. 80% of the total turnover of the company is achieved by directly selling to the dealers and the remaining 20% is done through selling directly to the infrastructure projects. The installed capacity of 2,70,000 MTPA for TMT Bars and 1,90,000 MTPA for billets (as on June 2024). Billets are captively consumed to produce TMT Bars. The production capacity utilization stood at 63.17% for TMT Bars and 83.71% for billets for FY2024.

TMT Bars constituted 92% of the total operating income in FY24 (Prov.) as against ~88% in FY23 while trading in other commodities constituted 8% of the operating income in FY24 (Prov.) as against 12% in FY23. The operating income rose by ~23% to Rs. 1146.58 Cr. in FY2024 (Prov.) from Rs. 933.52 Cr. in FY2023. Further, on a YTD basis, the company has clocked net sales of ~Rs. 321.88 Cr. till June 2024. Further, the sales volume of TMT Bars increased substantially to 2,10,240 MT in FY2024 (Prov.) as against 1,46,776 MT in FY2023. Also, the average selling price of TMT Bars declined to Rs. 50,100 per MT in FY 2024 (Prov.) from Rs. 55,804 per MT in FY 2023.

Acuité believes the company shall continue to benefit from its established position in the industry, experienced management and established relationships with customers and suppliers.

Above Average Financial Risk Profile

The financial risk profile of the company stood above average, marked by moderate net worth, average gearing (debt-equity) and average debt protection metrics. Tangible net worth increased to Rs. 112.60 Cr. as of March 31, 2024, (Prov.) reflecting sustained profitability and an increase from Rs. 107.47 Cr. on March 31, 2023. The total debt of the company stood at Rs. 282.86 Cr. which includes a long-term loan of Rs. 49.40 Cr., a short-term loan of Rs. 70.65 Cr. (in terms of CC) and unsecured loans of Rs.162.81 Cr. as on 31 March 2024 (Prov.). The gearing (debt-equity) ratio increased to 2.51 times in FY24 (Prov.) as compared to 1.82 times FY23 due to an increase in unsecured from directors & promoters. Interest Coverage Ratio stood at 3.53 times for FY24 (Prov.) as against 2.78 times for FY23. Debt Service Coverage Ratio (DSCR) stood at 1.52 times in FY24 (Prov.) as against 0.99 times in FY23. Total outside Liabilities/Total Net Worth (TOL/TNW) stood at 3.56 times as on 31 March 2024 (Prov.) as against 2.63 times as on 31 March 2023. An increase in TOL/TNW can be attributed to an increase in other current liabilities and provisions due to power bills and GST/VAT audit fees. Net Cash Accruals to Total Debt (NCA/TD) stood at 0.06 times for FY24 (Prov.) as against 0.04 times for FY23. Debt/EBITDA declined to 10.54 times in FY24 (Prov.) as against 17.60 times in FY23.

Acuite believes the financial risk profile of company may continue to remain above average over the medium term.

Capex Plan and Industrial promotion subsidy and electricity duty exemption

RSTPL is in the process of setting up the capacity expansion project adjacent to its existing TMT unit, thereby overall enhancing its TMT capacity to 4,50,000 MTPA from 1,50,000 MTPA and billet capacity to 3,40,000 MTPA from 1,50,000 MTPA. The estimated project cost is Rs. 300 Cr. wherein Rs. 180 Cr. relates to phase 1 and Rs. 120 Cr. relates to phase 2 of the project. Phase 1 of the project has been completed and commercial production has commenced from 01st May 2023. Phase 2 of the project in process and is expected to commence commercial operations by April 2025. On the account of capex, RSTPL is entitled to receive the benefits under Mega Project under Package Scheme of Incentives 2007 from FY2026 thereby improving PAT margins and net cash accruals for repayment of maturing debt obligations.

Acuite believes that the successful implementation of the capex would be key to increase in scale of operations. However, timely completion of the capex without any cost overrun would

remain key rating monitorable.

Weaknesses

Low profitability margins albeit improving revenue

The operating income rose by ~23% to Rs. 1146.58 Cr. in FY2024 (Prov.) from Rs. 933.52 Cr. in FY2023. On a YTD basis, the company has clocked net sales of ~Rs. 321.88 Cr. till June 2024. The operating margin for FY24 (Prov.) exhibited an improvement at 2.33% in FY24 (Prov.), compared to 1.01% in FY23 on account of a decline in the raw material prices. The PAT margin for FY24 (Prov.) stood at 0.45% compared to 0.01% in FY23. In the current period, the average sale price per MT is at a three-year low, despite this the unit sales increased as against the previous year due to an increase in the units sold.

Acuite believes the revenues and the margins will improve over the medium term.

Moderate Working Capital Management

The company has moderate working capital nature of operations marked by GCA days of 64 days in FY24 (Prov.) as against 47 days in FY23. The higher GCA days are on account of an increase in inventory and debtors due to the commencement of operations of unit 3. The inventory days stood at 22 days in FY24 (Prov.) as against 11 days in FY23. RSTPL maintains an inventory of scrap, sponge iron and silicon manganese for an average 5-7 days. Subsequently, the receivable days stood at 37 days in FY24 (Prov.) as against 25 days for FY23. Receivables of the company as on March 2024 stand at Rs. 117.25 Cr. and currently 98.67% of the debtors are less than 6 months. The company provides a credit of 30-60 days to its customers. The creditors' days of the company stood at 36 days in FY24 (Prov.) as against 33 days in FY23.

Acuite believes that the working capital operations of the company may continue to remain moderate, considering the nature of operation with moderate inventory maintenance requirements.

Rating Sensitivities

Timely completion of the project without any cost or time overrun

Improvement in scale of operation while improving the profitability margin.

Sustenance of above average financial risk and net cash accruals

Liquidity Position

Adequate

The company's liquidity position is adequate, marked by sufficient net cash accruals against the maturing debt obligations. The company has generated net cash accruals ranging from Rs. 7 Cr. to Rs. 18 Cr. between FY 2021 and FY 2023, sufficient to meet the mature repayment obligations during the same period. In addition, it is expected to generate sufficient cash accruals ranging from Rs. 24 Cr. to Rs. 36 Cr. against maturing debt repayment obligations of Rs. 6-10 Cr. over the medium term. Further, the working capital limits are marked by high utilizations of fund-based limits of 80-85% and non-fund-based limits of 80% in the last 6 months ending May 2024. The current ratio stood at 1.06 times on March 31, 2024, (Prov.) as against 1.01 times on March 31, 2023.

Acuite believes that the company's liquidity position would remain adequate over the medium term on account of expected steady cash accruals.

Outlook: Stable

Acuite believes that RSTPL outlook will remain 'Stable' over the medium term backed by its above average financial risk profile, adequate liquidity, long standing experience of the management and expected growth in revenue on account of capex being incurred towards capacity expansion. The outlook may be revised to 'Positive' in case the company registers higher than expected growth in its revenue and profitability while restricting significant elongations in working capital cycle and maintaining the above average financial risk profile and adequate liquidity position. Conversely, the outlook may be revised to 'Negative' in case the company registers lower-than expected growth in revenues and profitability, or, in case of deterioration in the company's business or financial risk profile or significant elongation in working capital cycle leading to stretch in liquidity.

Other Factors affecting Rating

None.

Key Financials

Particulars	Unit	FY 24 (Provisional)	FY 23 (Actual)
Operating Income	Rs. Cr.	1146.58	933.52
PAT	Rs. Cr.	5.11	0.11
PAT Margin	(%)	0.45	0.01
Total Debt/Tangible Net Worth	Times	2.51	1.82
PBDIT/Interest	Times	3.53	2.78

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>
- 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 :

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
Cosmos Bank	Not avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	40.00	ACUITE A4+ Assigned
HDFC Bank Ltd	Not avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	5.00	ACUITE A4+ Assigned
Cosmos Bank	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	20.00	ACUITE BB+ Stable Assigned
HDFC Bank Ltd	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	65.00	ACUITE BB+ Stable Assigned
Not Applicable	Not avl. / Not appl.	Proposed Long Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	0.10	ACUITE BB+ Stable Assigned
HDFC Bank Ltd	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	09 Jan 2030	Simple	38.34	ACUITE BB+ Stable Assigned
Cosmos Bank	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	06 Jun 2026	Simple	12.56	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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