



Press Release
R K STEEL MANUFACTURING COMPANY LIMITED
September 09, 2024
Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	265.00	ACUITE BBB Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	265.00	-	-

Rating Rationale

Acuite has assigned long-term rating at '**ACUITE BBB**' (read as **ACUITE Triple B**) for R K Steel Manufacturing Company Limited on the Rs. 265.00 Cr. bank facilities. The outlook is '**Stable**'.

Rationale for rating:

The rating takes into cognizance the healthy business risk profile, efficient working capital cycle followed by adequate liquidity position. However, these strengths are partly offset by the moderate financial risk profile and susceptibility of margins to volatility in the prices of raw materials.

About the Company

Chennai – Based, R K Steel Manufacturing Company Limited is incorporated in 2006. The company is engaged in manufacturer, wholesaler and exporter of assured quality Hot Rolled Tube, Black Steel Tube, Pre-Galvanized Tube and Precision Tube. The directors of the company are Mr. Pramod Kumar Bhalotia, Mr. Abhishek Bhalotia, Mr. Shashank Garg and Mr. Ashwin Satyanarayan Agarwal.

Unsupported Rating

Not Applicable

Analytical Approach

Acuite has considered the standalone business and financial risk profile of R K Steel Manufacturing Company Limited to arrive at the rating.

Key Rating Drivers

Strengths

Long track record of operations

The operations of the Company are managed by promoters Mr. Pramod Kumar Bhalotia and Mr. Rajesh Kumar Bhalotia. The promoters have an overall experience of more than two decades in the steel industry. The company manufactures and supplies value added steel products such as hot rolled tubes, hot dip galvanized pipes, precision tubes. Over the years, the company have been able to establish healthy relationship with it's customers and suppliers. Acuite believes that the experienced management of the company will benefit the scalability and profitability of the Company over the medium term.

Efficient Working Capital Management

The operations of the company has an efficient working capital cycle as reflected from Gross Current Assets of 92 days as on March 31, 2024(Prov.) compared to 119 days as on March 31, 2023 and 71 days as on March 31, 2022. The inventory days stood at 55 days as on March

31,2024(Prov.) as compared to 58 days as on March 31, 2023 and 31 days as on March 31, 2022. The debtor days stood at 34 days as on March 31, 2024(Prov.) compared to 35 days as on March 31, 2023 and 34 days as on March 31, 2022. The creditor days stood at 4 days as on March 31, 2024 (Prov.) compared to 13 days as on March 31, 2023 and 11 days as on March 31, 2022. Acuite believes that working capital requirements are expected to remain at similar levels due to the moderate inventory holding and efficient collection mechanism policy of the company over the medium term.

Increase in revenues and operating profitability

The revenues of the Company have increased to Rs. 1022.11 Cr. as on March 31, 2024 (Prov.) from Rs. 857.89 Cr. as on March 31, 2023 due to increase in volume sales of different products of the company despite a decline in prices. The operating profitability has largely remained stable at 5.40 percent as on March 31, 2024(Prov.) from 5.46 percent as on March 31, 2023 due to increase in manpower costs and manufacturing expenses in FY 2024.

Weaknesses

Margins are susceptible to price fluctuations

The company's performance remains vulnerable to cyclicalities in the steel sector as demand for steel depends on performance of end user segments such as construction and real estate. Indian steel sector is highly competitive due to presence of large number of players. Acuite believes that the operating margin of the company will continue to remain exposed to fluctuations in the prices of raw materials as well as price realization from finished goods.

Moderate financial risk profile

The financial risk profile of the company is moderate marked by comfortable net worth, high gearing and comfortable debt protection metrics. The adjusted tangible net worth stood at Rs.125.23 Cr. as on March 31, 2024(Prov.) as compared to Rs. 88.32 Cr. as on March 31, 2023 and Rs. 59.57 Cr. as on March 31, 2022 due to accretion of reserves. Acuite has considered unsecured loans of Rs. 13.49 Cr. as on March 31, 2024(Prov.) as quasi equity, as the same is subordinated to bank loans. Adjusted gearing stood comfortable at 2.08 times as on March 31, 2024(Prov.) compared to 2.64 times as on March 31, 2023 and 2.38 times as on March 31, 2022 due to reliance on bank borrowings for capex undertaken in FY2024 and incremental working capital borrowings. The interest coverage ratio stood at 2.89 times as on March 31, 2024(Prov.) compared to 3.52 times as on March 31, 2023 and 3.47 times as on March 31, 2022. The debt service coverage ratio stood at 1.49 times as on March 31, 2024(Prov.) compared to 1.83 times as on March 31, 2023 and 2.93 times as on March 31, 2022. The TOL/TNW stood at 2.24 times as on March 31, 2024(Prov.) compared to 3.09 times as on March 31, 2023 and 3.02 times as on March 31, 2022. the debt-EBDITA was high at 4.31 times as on March 31, 2024. Acuite believes that the company's financial risk profile will remain at a moderate level over the medium term backed by steady cash accruals.

Rating Sensitivities

- Improvement in scale of operations
- Debt funded capital expenditure plan
- Improvement in capital structure and Debt/EBDITA

Liquidity Position

Adequate

The liquidity is adequate marked by steady net cash accruals of Rs. 31.51 Cr. as on March 31, 2024(Prov.) as against long term debt repayment of Rs. 14.29 Cr. over the same period. The current ratio stood at 1.23 times as on March 31, 2024 (Prov.) as compared to 1.50 times as on March 31, 2023 and 1.70 times as on March 31, 2022. Moreover, the fund-based limit was utilized around 80 per cent for the six-months ended July 2024. Acuite believes that going forward the liquidity position of the company will remain adequate in the absence of any major debt funded capex plans, steady accruals and moderate current ratio.

Outlook: Stable

Acuité believes the outlook on company will remain 'Stable' over the medium term backed by its experienced management and long track record of operations along with efficient working capital management. The outlook may be revised to 'Positive' if the company is able to improve its scale of operations significantly along with sustained improvement in financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of deterioration in working capital operations leading to stretch in liquidity profile or financial risk profile.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 24 (Provisional)	FY 23 (Actual)
Operating Income	Rs. Cr.	1022.11	857.89
PAT	Rs. Cr.	23.43	20.22
PAT Margin	(%)	2.29	2.36
Total Debt/Tangible Net Worth	Times	2.08	2.64
PBDIT/Interest	Times	2.89	3.52

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

CRISIL, vide its press release dated January 8th, 2024 had denoted the rating of R K Steel Manufacturing Company Limited as 'CRISIL BB+/Stable; 'DOWNGRADED AND ISSUER NOT CO-OPERATING'.

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
HDFC Bank Ltd	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	87.00	ACUITE BBB 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	3.17	ACUITE BBB Stable Assigned
HDFC Bank Ltd	Not avl. / Not appl.	Term Loan	29 Dec 2021	Not avl. / Not appl.	29 Aug 2026	Simple	2.26	ACUITE BBB Stable Assigned
HDFC Bank Ltd	Not avl. / Not appl.	Term Loan	29 Dec 2021	Not avl. / Not appl.	30 Oct 2024	Simple	0.66	ACUITE BBB Stable Assigned
HDFC Bank Ltd	Not avl. / Not appl.	Term Loan	31 Jan 2023	Not avl. / Not appl.	31 Jan 2028	Simple	8.87	ACUITE BBB Stable Assigned
HDFC Bank Ltd	Not avl. / Not appl.	Term Loan	02 Mar 2023	Not avl. / Not appl.	31 Jan 2028	Simple	13.44	ACUITE BBB Stable Assigned
HDFC Bank Ltd	Not avl. / Not appl.	Term Loan	18 Mar 2024	Not avl. / Not appl.	18 Mar 2029	Simple	8.90	ACUITE BBB Stable Assigned
HDFC Bank Ltd	Not avl. / Not appl.	Term Loan	20 May 2024	Not avl. / Not appl.	18 Nov 2028	Simple	4.70	ACUITE BBB Stable Assigned
HDFC Bank Ltd	Not avl. / Not appl.	Term Loan	29 Dec 2021	Not avl. / Not appl.	23 Dec 2026	Simple	5.00	ACUITE BBB Stable Assigned
HDFC Bank Ltd	Not avl. / Not appl.	Working Capital Demand Loan (WC DL)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	131.00	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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