Press Release

Rattan Ispat Private Limited

February 09, 2022

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities – Term Loan/CECF	31.36	IVR BBB-/Stable (IVR Triple B Minus with Stable Outlook)	Assigned	Simple
Long Term Bank Facilities – Cash Credit	8.92	IVR BBB-/Stable (IVR Triple B Minus with Stable Outlook)	Assigned	Simple
Short Term Bank Facilities- Bank Guarantee	0.45	IVR A3 (IVR A Three)	Assigned	Simple
Total	**40.73 (Forty crore and seventy-three lakh)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Rattan Ispat Private Limited (RIPL) derive strength from its long track record of operations under experienced promoters and stable operating performance over the past three fiscals. The ratings also factor in company's efficient working capital management as well as its comfortable capital structure and debt protection metrics. These rating strengths are however partially offset by the risk associated with timely completion of its ongoing capex and stabilization of operations, susceptibility of its profitability to volatility in raw material prices, exposure to intense competition and exposure to cyclicality associated with the steel industry.

Key Rating Sensitivities:

Upward Factors

- Sustained growth in scale of operations and improvement in profitability with rise in gross cash accruals
- Sustenance of capital structure and improvement in debt protection metrics with rise in interest coverage to over 3x
- Timely completion of capex without any time or cost overrun

Downward Factors

- Delay in completion of ongoing capex and commencement of operations with the enhanced capacity.
- Significantly lower than expected scale of operations and/or profitability
- Withdrawal of subordinated unsecured loan or any unplanned debt funded capital expenditure leading to deterioration in the capital structure with overall gearing deteriorating to over 1.5x

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Long track record of operations and experienced promoters

RIPL has an operational track record of over one and half decades in the steel industry. Long standing presence in the industry has helped the Company to establish healthy relationships with both customers and suppliers. The Company also benefits from the vast experience of its promoters in the steel industry. Mr. Rohit Agarwal, the Chief Executive Director of the Company and Mr. Gautam Agarwal have over 21 years and 17 years of experience respectively.

Stable operating performance

Notwithstanding moderation in top line from Rs.222.85 crore in FY19 to Rs.192.29 crore in FY21 due to decline in its revenue from trading as well as due to decline in realization per tonne of M.S Ingots in FY20 and decrease in sales volume of M.S Ingots in FY21 as the manufacturing facilities remained shut for around 2.5 months in Q1FY21 due to the Covid-19 led national lockdown, the profitability of the company remain intact and witnessed gradual improvement. The EBITDA margin improved from 0.67% in FY19 to 2.64% in FY21 on the back of an increase in contribution of manufacturing sales to net sales of the Company coupled with decline in raw material expenses and power & fuel expenses. The PAT margin also improved from 0.39% in FY19 to 1.50% in FY21.

Comfortable capital structure and debt protection metrics; though expected to deteriorate will remain comfortable

The capital structure of the company remained comfortable over the past three account closing dates marked by its satisfactory leverage ratios. The promoters have infused subordinated unsecured loans in the business in regular intervals and infused Rs.5.45crore in FY21. Considering the subordinated unsecured loans amounting to Rs.11.62 crore as on March 31, 2021 as quasi equity, Tangible net worth (TNW) of the company stood moderate at Rs.24.58 crore. Moderate net worth as against low debt resulted in the overall gearing ratio maintaining at below 0.50x in the last three account closing dates. Total indebtedness of the company also remained comfortable marked by TOL/TNW at 0.80x as on March 31, 2021. Further, the same has registered sustained improvement over FY19-FY21. Though the gearing ratios are expected to deteriorate in FY22 on account of the loan of Rs.31crore availed by the company to fund expansion of its manufacturing capacity, they will remain comfortable with overall gearing at below 1.0x. The debt protection metrics of the company also remained comfortable in the three years through FY21 marked by interest coverage of over 3.0x and Total debt/GCA in the range of 0.15-2.92x.

Efficient working capital management

The operating cycle of the company stood at 5 days in FY21 and the same has improved in the three years through FY21. The operating cycle is low on account of low inventory days and debtor days. Despite the disruptions caused by Covid-19 in Q4FY20 and FY21, the inventory days and debtor days have improved in the three years ended on March 31, 2021 implying prudent management of inventory and receivables.

Key Rating Weaknesses

Risk associated with timely completion of capex and stabilization of operations

RIPL is incurring capex to the tune of ~Rs.55 crore towards expansion of existing facility from an installed capacity of 27200MT per annum for manufacturing of M S Ingots to 192000MT per annum for manufacturing of M S Billets. The project is being funded with a debt-to-equity ratio of 1.29:1. The company has already incurred cost of Rs.46.66 crore up to October 31, 2021 and commercial operations of the enhanced capacity are expected to commence from April 2022. Timely completion of project and successful offtake of operations of the additional capacity are key monitorable.

Susceptibility of profitability to volatility in raw material prices

The degree of backward integration defines the ability of the company to withstand cyclical downturns generally witnessed in the steel industry. Major raw materials required for the company are sponge iron, pig iron and MS Scrap which it procures from manufacturers in West Bengal. Raw-material cost accounted over ~88% of net sales in the last three fiscals. Since raw material is the major cost driver, the prices of which are volatile in nature, the profitability of the company is susceptible to fluctuation in raw-material prices. Further, finished steel prices are also highly volatile and prone to fluctuations based on global demand supply situations and other macro-economic factors.

Exposure to cyclicality associated with the steel industry

The domestic steel industry is cyclical in nature which is likely to impact the cash flows of the steel players, including RIPL. The steel industry is cyclical in nature and has witnessed prolonged periods where it faced a downturn due to excess capacity leading to a downtrend in the prices. The company's operations are thus vulnerable to any adverse change in the demand-supply dynamics.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non- Financial Sector)

Liquidity – Adequate

The liquidity position of RIPL is expected to remain adequate driven by comfortable expected accruals over the medium term as against repayment obligations. Further, the company has efficient working capital management as reflected in operating cycle of 5 days in FY21 and low utilization of its working capital limits with an average of ~56% in the past 12 months through November 2021. Liquidity is also supported by financial support from promoters and related parties in the form of unsecured loans.

About the Company

Incorporated in 2004, Rattan Ispat Private Limited (RIPL) is engaged in manufacturing of Mild Steel Ingots and trading of finished steel products such as TMT, coil, wire rod, section, angle and pipes. The manufacturing facility of the Company is located at District Bankura, West Bengal with an installed capacity of 27200MT per annum.

Financials (Standalone):

(Rs. crore)

For the year ended / As on*	31-3-2020	31-3-2021
	Audited	Audited
Total Operating Income	200.15	192.29
EBITDA	2.03	5.07
PAT	1.02	2.89

Total Debt	0.19	5.10
Book Tangible Net worth	10.27	12.96
EBITDA Margin (%)	1.02	2.64
PAT Margin (%)	0.51	1.50
Overall gearing	0.01	0.21

**as per Infomerics standards*

Status of non-cooperation with previous CRA: NA

Any other information:

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2021-22)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1.	Term Loan/CECF	Long Term	31.36	IVR BBB-/Stable	-	-	-
2.	Cash Credit	Long Term	8.92	IVR BBB-/Stable	-	-	-
3.	Bank Guarantee	Short Term	0.45	IVR A3	-	-	-

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About Infomerics:

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Term Loan/CECF	-	-	Varied (up to 2028)	31.36	IVR BBB-/Stable
Cash Credit	-	-	-	8.92	IVR BBB-/Stable
Bank Guarantee	-	-	-	0.45	IVR A3

Annexure 2: List of companies considered for consolidated analysis: Not Applicable.

Annexure 3: Facility wise lender details

https://www.infomerics.com/admin/prfiles/Rattan-Ispat-lenders-feb22.pdf

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.