Rattan Ispat Private Limited

May 22, 2023

Ratings

Facilities	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	42.83 (Enhanced from Rs.40.28 Crore)	IVR BBB- / Stable (IVR Triple B Minus with Stable Outlook)	Reaffirmed	Simple
Short Term Bank Facilities	17.90 (Enhanced from Rs.0.45 Crore)	IVR A3 (IVR A Three)	Reaffirmed	Simple
Total	**60.73 (INR Sixty Crore and Seventy-Three Lakhs Only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The reaffirmation of the ratings assigned to the bank facilities of Rattan Ispat Private Limited (RIPL) considers its long track record of operations under experienced promoters and improvement in its financial performance in FY23 (Provisional). Further, the ratings also factor in company's efficient working capital management as well as its comfortable capital structure and moderate debt protection metrics. These rating strengths are, however, continues to remain constrained due to its presence in highly fragmented industry with low bargaining power, susceptibility of profitability to volatility in raw material and finished goods prices and its 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
- Effective working capital management with improvement in operating cycle and liquidity

Downward Factors

- Moderation in scale of operations and/or moderation in profitability impacting the cash accruals on a sustained basis
- Withdrawal of subordinated unsecured loan or any unplanned debt funded capital expenditure leading to deterioration in the capital structure with moderation in overall gearing to over 1.5x
- Elongation of the working capital cycle leading to deterioration in liquidity.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Long track record of operations under 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 and Mr. Gautam Agarwal have over 21 years and 17 years of experience respectively.

Improvement in operating performance in FY23

RIPL witnessed moderation in its operating income from Rs.192.29 crore in FY21 to Rs.159.28 crore in FY22 as ingot manufacturing unit was closed for 5 - 6 months due to installation of a new billet unit. In view of the same the majority revenue (~78%) earned during F22 was from trading activities. However, in FY23, post capex, the revenue from manufacturing activities was increased to Rs. 338.91 crore (~88% of total revenue). The EBITDA margin of the company also improved from 1.81% in FY22 (Aud.) to 3.40% in FY23 (Prov.) on the back of rise in revenue from manufacturing activities in the overall revenue profile. Driven by rise in EBITDA, the PAT margin witnessed improvement from 0.68% in FY22 to 1.22% in FY23. Moreover, gross cash accruals of the company have also improved from Rs.1.04 crore in FY22 to Rs.6.13 crore in FY23 (Prov.).

Comfortable capital structure and moderate debt protection metrics

The leverage ratios, continued to remain comfortable and improved driven by continues accretion of profit to reserves, support from promotors, directors and related party in the form of subordinated unsecured loan along with scheduled repayment of term loans. The debt equity ratio and overall gearing ratio stood comfortable at 0.74x and 0.98x respectively as on March 31,2023 (0.87x and 0.99x respectively as on March 31, 2022). Moreover, total indebtedness of the company remained comfortable marked by TOL/TNW at 1.38x as on March 31,2023. Further, the debt protection metrics of the company as indicated by interest coverage ratio improved from 1.56x in FY22 to 2.47x in FY23 on account of improvement in absolute EBITDA. However, Total debt to EBITDA and Total debt to GCA remained moderate at 3.61x and 6.77 years respectively as on March 31,2023 (Provisional).

Efficient working capital management

The operating cycle of the company stood at 12 days in FY23 (Provisional). The operating cycle is low on account of low inventory days and debtor days and creditor cycle.

Key Rating Weaknesses

Susceptibility of profitability to raw material and finished product price volatility

The price of iron ore/ coal which are the main raw materials and finished steel products prices are highly volatile in nature. The company is exposed to the risk of price volatility from the time of procurement of the product till sale of the same. This also exposes the risk of the company's growth and profitability.

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.

Presence in highly fragmented industry and low bargaining power

The iron and steel industry is highly fragmented and competitive with the presence of large number of organised and unorganised players. Intense industry competition coupled with commoditised nature of the products limits the company's pricing flexibility and bargaining power.

Analytical Approach: Standalone

Applicable Criteria:

- Rating Methodology for Manufacturing Companies
- Financial Ratios & Interpretation (Non- Financial Sector)
- Criteria of assigning rating outlook

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 its operating cycle of 12 days in FY23 (Provisional) and low average utilization in its working capital limits at ~62% in the past 12 months through March 2023.

About the Company

Incorporated in 2004, Rattan Ispat Private Limited (RIPL) is engaged in manufacturing of Mild Steel Ingots, MS billet 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 for Ingot. In FY 2022-23, the new billet unit commenced its commercial operations in phased manner. The total installed capacity of the billet unit is 192000 MTPA.

Financials: Standalone

(Rs. crore)

For the year ended* / As On	31-03-2022	31-03-2023
	Audited	Provisional
Total Operating Income	159.87	338.54
EBITDA	2.88	11.50
PAT	1.08	4.13
Total Debt	37.94	41.49
Adjusted Tangible Net worth	38.40	42.52
EBITDA Margin (%)	1.81	3.40
PAT Margin (%)	0.68	1.22
Overall Gearing Ratio (x)	0.99	0.98
Interest Coverage Ratio (x)	1.56	2.47

**Classification as per Infomerics' standards.*

Status of non-cooperation with previous CRA: Not Applicable.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2023-24)	Rating History for the past 3 years

		Type	Amount outstanding. (Rs. Crore)	Rating		Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
1.	Term Loan/GECL	LT	31.50	IVR BBB-/ Stable	IVR BBB-/ Stable(May 08,2023)	-	IVR BBB-/ Stable(Feb 09,2022)	-
2.	Cash Credit	LT	11.33	IVR BBB-/ Stable	IVR BBB-/ Stable(May 08,2023)	-	IVR BBB-/ Stable (Feb 09,2022)	-
3.	Bank Guarantee	ST	17.45	IVR A3	IVR A3(May 08,2023)	-	IVR A3(Feb 09,2022)	-
4.	Bank Guarantee-Proposed	ST	0.45	IVR A3	IVR A3(May 08,2023)	-	-	-

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About Infomerics:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

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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/GECL	-	-	March 2028	31.50	IVR BBB-/ Stable
Cash Credit	-	-	-	11.33	IVR BBB-/ Stable
Bank Guarantee	-	-	-	17.45	IVR A3
Bank Guarantee-Proposed	-	-	-	0.45	IVR A3

Annexure 2: Facility wise lender details:

https://www.infomerics.com/admin/prfiles/Len-RattanIspat-may23.pdf

Annexure 3: List of companies considered for consolidated analysis: Not Applicable

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 https://www.infomerics.com.