



Press Release

Radha Smelters Private Limited (RSPL)

January 28, 2021

Sl. No.	Instrument/Facility	Amount (INR. Crore)	Rating	Rating Action
1.	Long Term Fund Based Facility – Cash Credit	61.00	IVR BBB-/ Stable outlook (IVR Triple B Minus with Stable outlook)	Assigned
2.	Long Term Fund Based Facility – Term Loan	23.86	IVR BBB-/ Stable outlook (IVR Triple B Minus with Stable outlook)	Assigned
3.	Long Term Fund Based Facility – SLC COVID-19	5.45	IVR BBB-/ Stable outlook (IVR Triple B Minus with Stable outlook)	Assigned
4.	Long Term Fund Based Facility – GECL-WCTL 2	15.47	IVR BBB-/ Stable outlook (IVR Triple B Minus with Stable outlook)	Assigned
5.	Short Term Non Fund Based Facility – Bank Guarantee	0.50	IVR A3 (IVR Single A Three)	Assigned
	Total	106.28		

Details of Facilities are in Annexure 1

Detailed Rationale

The aforesaid rating assigned to the bank facilities of Radha Smelters Private Limited (RSPL) derives strength from its extensive experience of management along with established track record, strong brand positioning, diversified portfolio & geographical presence, improving revenue trend, comfortable working capital management, moderate financial risk profile and capital structure. However, Volatile profitability, and intensive competition in the industry are the rating constraints.

Key Rating Sensitivities:

Upward rating factor(s):

- Substantial and sustained improvement in revenue & profitability leading to overall improvement in debt protection metrics.



Press Release

Downward rating factor(s)

- Any decline in revenue and/or profitability impacting the debt protection metrics or liquidity.

Key Rating Drivers with detailed description

Key Rating Strengths

Extensive experience of management & established track record:

The company has a track record of more than a decade, having commenced its operations in 2007. The promoters have extensive experience and an established track record in the steel business, this has helped the company in establishing healthy and long term relationship with a stable customer base in the state of Telangana and Andhra Pradesh. The directors are well supported by a team of experienced and qualified professionals for their day to day business operations.

Strong brand positioning:

RSPL sells TMT bars under the brand name, “Radha TMT”. Since FY18, the company has taken a number of steps for developing the brand, including promotion through celebrity endorsement and other means of advertisement which is helping in building a strong brand recall for the product. RSPL has increased the strength of total distributors and overall marketing team in order to further diversify its geographical presence. Such promotional activities have helped the company in strengthening its brand position.

Diversified Product Portfolio & Geographical Presence:

The company manufactures & sells Mild steel (MS) billets and Thermo mechanically treated (TMT) bars, MS Flats, MS Squares, Plain Rounds, etc. The products manufactured by the company find end use in infrastructure, real estate & automobile industries”. The company sells its products majorly in the states of Telangana & Andhra Pradesh.

Improving revenue trend:

The total operating income of the company remained progressive over the past four fiscal years ended FY20. After witnessing a CAGR of ~ 26% on the back of increase in sales volume attributable with high demand and revised marketing strategy and capex done in FY19. The revenue had increased to INR488.46 crore in FY20 (FY18:INR320.75 crore). The same trends



Press Release

had been seen in overall sales volume which increase to 1,41,205 MTPA in FY20 (FY18: 99,659 MTPA). There was a marginal decline in revenue in FY20 due to lower realization which has rebound in current year. The company revenue remains muted in initial two months of FY21 due to nationwide lockdown induced because of Covid-19 pandemic. However, the trends seen an upward trajectory since May and till November 2020, the company is able to achieve the revenue of around INR300.35 crore (Till November FY19: INR307.97) and is expected to surpass the revenue achieved in FY20.

Comfortable working capital management:

The operating cycle of the company stands comfortable, in the range of 57-72 days during the last three years. The inventory holding period has remained range bound between 22-30 days during FY17-FY20. However, average collection period stands increase to 62 days in FY20 as compared to 48 days in FY19 on account of nation-wide lockdown, which affected the collection in the month of March, 2020.

Moderate financial risk profile and capital structure; albeit improving:

The financial risk profile of the company is marked by moderate capital structure and debt protection metrics. The net worth of the RSPL stood at INR45.39 Crore as on March 31, 2020. Overall gearing stood at 1.80x as on March 31, 2020 which got improved as compared to 2.08x as on March 31, 2019. Total indebtedness of the company marked by TOL/TNW remained moderate at 2.96x as on March 31, 2020 as compared to 3.63x as on March 31, 2020. Interest coverage ratio (ICR) deteriorated to 1.57x in FY20 (FY19:2.43x) due to decline in EBITDA coupled with increase in finance cost arising out of increase in Long Term Debt resulted from recently completed capex as well as ongoing capex. ICR is expected to improve in FY21 due to lower interest rate regime coupled with improving EBITDA margin.

Key Rating Weaknesses

Volatile Profitability:

The profitability margin of the company reflected by EBITDA margin and PAT margin remains volatile due to demand & supply dynamics and fluctuating raw material price. EBITDA margin & PAT margin declined in FY20 to 3.22% and 0.59% as compared to 4.19% and 1.89% in FY19 respectively, However, the brand positioning effort is likely to help the company in better



Press Release

absorption of the adverse market movement. Furthermore, ongoing CAPEX of around INR10.00 crore pertaining to installing 132 KVA power line will be completed by the end of FY21 which will reduce the overall power cost by 40 paise per unit, this reduction in power cost will help in absorbing any adverse movement in other cost parameters. Till November 2020, the company is able to achieve the EBITDA margin & PAT margin 6.17% & 2.21% respectively.

Intense competition in the industry:

The steel industry is highly fragmented with the presence of both organized and unorganized players in the downstream segment providing similar products/services. Hence, the company faces competition from regional players leading to intense competition and pricing pressures, which in turn can affect the profitability margins of the company.

Analytical Approach & Applicable Criteria:

Standalone

Rating methodology for manufacturing companies

Financial ratios & Interpretation (Non-Financial Sector)

Liquidity: Adequate

The company has been earning comfortable level of Gross Current Assets (GCA) for the last three years ended FY20 and the same is expected to improve further with an increase in scale of operation & rationalisation of cost. The company maintains adequate cash and bank balance to meet its liquidity requirement. The average working capital utilisation remained moderate at ~89% during the last 12 months ended November 30, 2020.

About the Company:

Incorporated on June, 2007 with registered office in Hyderabad, Telangana. Radha Smelters Pvt Ltd is engaged in the business of manufacturing steel products such as MS Billets, MS Structural Steel products, MS TMT bars, MS section/angles, etc. The company has two furnaces with 15 tonne and 30 tonne capacity (total 45 tonne), billets manufacturing capacity of 1,48,500 MTPA and a rolling mill with a capacity of 1,25,000 MTPA. The promoter's family



Press Release

is in steel industry from last five decades. Presently the company is being managed by Mr. Sunil Saraf (Chairman) and Mr. Suman Saraf (Managing Director)

Financials:

(INR. Crore)		
For the year ended/ As On*	31-03-2019 (Audited)	31-03-2020 (Audited)
Total Operating Income	510.18	488.46
EBITDA	21.36	15.73
PAT	4.77	2.89
Total Debt	88.46	81.77
Tangible Net-worth	42.50	45.39
EBITDA Margin (%)	4.19	3.22
PAT Margin (%)	0.93	0.59
Overall Gearing Ratio (x)	2.08	1.80

*Classification as per Infomerics standards

Status of non-cooperation with previous CRA: None

Any other information: N.A.

Rating History for last three years:

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (INR. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Long Term Fund Based Facility – Cash Credit	Long Term	61.00	IVR BBB-/ Stable outlook	--	--	--
2.	Long Term Fund Based Facility – Term Loan	Long Term	23.86	IVR BBB-/ Stable outlook	--	--	--
3.	Long Term Fund Based Facility – SLC COVID-19	Long Term	5.45	IVR BBB-/ Stable outlook	--	--	--
4.	Long Term Fund Based Facility – GECL-WCTL 2	Long Term	15.47	IVR BBB-/ Stable outlook	--	--	--
5.	Short Term Non Fund Based	Short Term	0.50	IVR A3	--	--	--



Press Release

Facility – Bank Guarantee						
Total		106.28				

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.

Name and Contact Details of the Rating Team:

Name: Jayshree Purohit

Tel: (022) 62396023

Email: jpurohit@infomerics.com

Name: Amit Bhuwania

Tel: (022) 62396023

Email: abhuwania@infomerics.com

About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

Disclaimer: Infomerics ratings are based on information provided by the issuer on an 'as is where is' basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change, suspend or withdraw the credit ratings at any point in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (INR. Crore)	Rating Assigned/ Outlook
Long Term Fund Based Facility – Cash Credit	NA	NA	NA	61.00	IVR BBB-/ Stable outlook



Press Release

Long Term Fund Based Facility – Term Loan	NA	NA	Up to January, 2027	23.86	IVR BBB-/ Stable outlook
Long Term Fund Based Facility – SLC COVID-19	NA	NA	Up to September, 2022	5.45	IVR BBB-/ Stable outlook
Long Term Fund Based Facility – GECL-WCTL 2	NA	NA	Up to December, 2025	15.47	IVR BBB-/ Stable outlook
Short Term Non Fund Based Facility – Bank Guarantee	NA	NA	NA	0.50	IVR A3