Press Release

Radiant Industries

April 28, 2020

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities-Cash Credit	10.00	IVR BB-/Stable (IVR Double B minus with Stable Outlook)	Assigned
Long Term Bank Facilities-Term Loan	4.08	IVR BB-/Stable (IVR Double B minus with Stable Outlook)	Assigned
Short Term Bank Facilities-Letter of Credit	2.00	IVR A4 (IVR Single A Four)	Assigned
Total	**16.08**		

Details of Facilities are in Annexure 1

Rating Rationale

The rating assigned to the bank facilities of Radiant Industries (RI) factors in the extensive experience of the partners in the steel industry, gradual improvement in capacity utilisation, growth in sales and moderate working capital management. However, these rating strengths are partially offset by dip in its profitability metrics, susceptibility of operating margin to volatility in raw material prices, leveraged capital structure with weak debt protection metrics, cyclicality in the steel industry and partnership nature of constitution

Key Rating Sensitivities

Upward Rating Factor

- Significant growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals on a sustained basis
- Improvement in the capital structure and debt protection metrics with TOL/TNW remained below 4.5x and interest coverage to remain over 2x

Downward Rating Factor

- Dip in operating income and/or profitability impacting the debt coverage parameters on a sustained basis

- Moderation in the capital structure and /or debt protection metrics
- Deterioration in working capital management impacting the liquidity

Detailed description of Key Rating Strengths

Extensive experience of the partners in the steel industry

The firm is promoted by Mr. Hardeep Singh who has extensive experience of over two decades in managing iron and steel business. Before promoting RI he was managing another family owned business, 'Punjab Steels' before establishing RI. The partner's ong standing experience of two decades in the steel industry has helped the firm in establishing healthy relations with customers and suppliers.

Gradual improvement in capacity installed

The capacity utilization of RI has improved during the period under review. Further, the firm has increased in capacity installed for the bright bar segment coupled with commencement of manufacturing of H.B. Wires in FY 2019. The installed capacity of bright bars got increased from 10000 MTPA in FY 18 to 18000 MTPA in FY 19. In addition the company started manufacturing of H.B. Wires from FY 19 with an installed capacity of 1000 MTPA.

Growth in revenue

RI has recorded growth in revenue to Rs.65.65 crore in FY2019 as compared to Rs.47.13 crore in FY2018 and Rs.33.49 crore in FY2017. The revenue of the firm had grown at a compounded annual growth rate of ~40 % during FY17-FY19. The growth in revenue was majorly due to increase in capacity installed for the bright bar segment coupled with commencement of manufacturing of H.B. Wires in FY 2019. The firm continuously invests in its fixed assets to enhance its capacity installed. Further, RI has booked revenue of Rs.55.42 crore for the 11MFeb 2020.

Moderate working capital management

The working capital cycle is moderate on account of moderate collection and inventory period. The average collection period stood at 42 days during the period under review FY19 as against 50 days in FY18. The improvement was on account of higher focus on receivable management by the company. Speedy realization from debtors reduces dependence on working capital borrowings. Further, inventory is generally maintained for 17-35 days. The moderate working capital management is further reflected from utilisation of working capital to the extent of ~ 85 % during the last 12 months ended Feb' 2020.

Key Rating Weaknesses

Dip in profit margins

Raw materials constitutes ~80-90% of the company's raw material requirement. With the prices of the raw material constantly volatile, company's margins are largely affected by it. Further, the profit margins have dipped in FY19 on account of disruption in operations at the time of commencement of new production facility in H.B. Wires. The operating margin stood thin at 2.48% in FY19 and deteriorated gradually from 5.08% in FY17. Further, increase in the interest cost burden due to higher reliance of debt to fund its capacity enhancement project has resulted in dip in net profit margins which also stood thin at 0.05% in FY19 and moderated from 1.58% in FY18. However, during 11MFY20 the operating margin witnessed marginal improvement to 2.49% driven by improvement in realisation and better cost control. Going forward, improvement in profitability metrics will remain a key rating sensitivity.

Susceptibility of operating margin 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. The major raw materials required for manufacturing bright bars are hot rolled bars which is the major cost driver (constituting about 80-90 % of total cost of sales in FY19) and raw material prices are volatile in nature, the profitability of the firm is susceptible to fluctuation in raw material prices (though the prices of finished goods move in tandem with raw material prices, there is a time lag). Further, finished steel prices are also highly volatile and prone to fluctuations based on global demand supply situations and other macro-economic factors.

Leveraged capital structure with weak debt protection metrics

The financial risk profile of RI is marked by its low net worth, high gearing and moderate debt protection metrics. The net worth stood at Rs.5.56 crore as on March 31, 2019. The long term debt equity ratio and the overall gearing ratio were high at 1.35x and 2.98x respectively as on March 31, 2019 (1.43x and 2.00x respectively as on March 31, 2018). Further, total indebtedness of the company as reflected by TOL/TNW also remained high at 5.58x as on March 31, 2019 (4.40x as on March 31, 2018). The debt protection metrics also remained weak marked by moderate interest coverage ratio of 1.47x in FY19 as compared to 2.29x in FY18 and Total debt to GCA at 20.16 years in FY19. The dip in interest coverage ratio was due to increase in the interest cost burden due to higher reliance of debt for fund its capacity enhancement. The debt protection metrics were also impacted due to moderation in profitability in FY19. The partners infused unsecured loans aggregating to Rs.0.54 crore in FY 19 to serve its debt service obligations.

Cyclicality in the steel industry

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

Partnership nature of constitution

Being a partnership firm, RI is exposed to inherent risk of withdrawal of capital, spilt in the business and less regulatory compliances.

Analytical Approach: Standalone

Applicable Criteria

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity: Poor

The firm has poor liquidity driven by expected cash accruals of ~Rs.0.75-1 crore per annum, in FY 2021-22 against repayment obligations of Rs.0.67-0.95 crore in fiscal 2021 and 2022. Any moderate dip in cash accruals may result in liquidity mismatch, however, the average utilisation of working capital of the firm remained moderate to the extent of ~ 85 % during the last 12 months ended Feb’ 2020 indicating a moderate liquidity cushion.

About the Firm

Radiant Industries is a Ludhiana based partnership firm established in 2007. Initially the firm was engaged in trading of steel and iron products and later in 2014 the firm commenced manufacturing of bright bars. Currently the firm is engaged in manufacturing of bright bars and H.B. wires with installed capacity of 18,000 and 1,000 MTPA respectively. The firm is managed by partners, Mr. Hardeep Singh and his wife Mrs. Baljeet Kaur

Financials (Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	47.13	65.65
EBITDA	2.07	1.63
PAT	0.64	0.04
Total Debt	7.91	12.24
Tangible Net worth	3.96	4.11
EBITDA Margin (%)	4.40	2.48
PAT Margin (%)	1.35	0.05
Overall Gearing Ratio (x)	2.00	2.98

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: Acuité has moved the rating of RI into the Issuer Non-Cooperating category as the company did not co-operate in the rating procedure despite repeated follow ups as per the Press Release dated January 17, 2020.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name Instrument/ Facili ties	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstandi ng (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 19-20	Date(s) & Rating(s) assigned in201 8-19	Date(s) & Rating(s) assigned in 2017-18
1.	Cash Credit	Long Term	10.00	IVR BB-/ Stable Outlook	-	-	-

2	Term Loan	Long Term	4.08	IVR BB-/ Stable Outlook	-	-	-
3	Letter of Credit	Short Term	2.00	IVR A4	-	-	-

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.

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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
Long Term Bank Facilities – Cash Credit	-	-	-	10.00	IVR BB-/ Stable Outlook
Long Term Bank Facilities – Term Loan	-	-	March'2024	4.08	IVR BB-/ Stable Outlook
Short Term Bank Facilities – Letter of Credit	-	-	-	2.00	IVR A4