Press Release

Rudra Global Infra Products Limited

March 04, 2020

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action
Long Term Fund Based Facilities- Cash Credit	80.00	IVR BBB- / Stable Outlook (IVR Triple B Minus with Stable Outlook)	Rating Revised from IVR BBB/Stable (IVR Triple B with Stable Outlook)
Long Term Fund Based Facilities- Term Loan 1	0.12 * (reduced from Rs.0.79 crore)	IVR BBB- / Stable Outlook (IVR Triple B Minus with Stable Outlook)	Rating Revised from IVR BBB/Stable (IVR Triple B with Stable Outlook)
Long Term Fund Based Facilities- Term Loan 2	48.30 * (including proposed limit of Rs.43.00 crore and reduced from Rs.57.00 crore)	IVR BBB- / Stable Outlook (IVR Triple B Minus with Stable Outlook)	Rating Revised from IVR BBB/Stable (IVR Triple B with Stable Outlook)
Long Term Non-Fund Based Facilities – Bank Guarantee	18.00	IVR BBB- / Stable Outlook (IVR Triple B Minus with Stable Outlook)	Rating Revised from IVR BBB/Stable (IVR Triple B with Stable Outlook)
Total	**146.42**		

**outstanding as on December 31, 2019*

Details of Facilities are in Annexure 1

Detailed Rationale

The revision in the ratings assigned to the bank facilities of Rudra Global Infra Products Limited (RGIPL) primarily considers moderation in its performance marked by significant decline in its total revenue, profits and cash accruals in 9MFY20 primarily due to subdued market demand leading to dip in volume sales coupled with adverse movement in sales realisations during the aforesaid period. Further, there was a steady increase in interest cost during the aforesaid period owing to rise in its short term borrowings. Meanwhile, the ratings continue to derive comfort from its experienced promoters and established brand with strong distribution network. The ratings also consider the moderate capital structure of the company despite an increase in the short-term borrowings in FY2019 and H1FY2020. However, these rating strengths are partially offset by intense competition in its operating spectrum, exposure towards group companies and exposure to foreign currency fluctuation risk. Besides, the overall profitability remains vulnerable to fluctuations in raw material and finished goods prices along with cyclicality in steel industry.

Key Rating Sensitivities:

Upward Factor:

- Significant improvement in revenue and profitability coupled with rise in net cash accruals on a sustained basis while maintaining its operating efficiency and financial risk profile.
- Improvement in the capital structure.
- Reduced exposure to group companies.

Downward factor:

- More than expected dip in operating income and/or profitability impacting the debt coverage indicators, subdued industry scenario, increase in dependence on working capital borrowings and moderation in overall gearing to more than 2 times.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced promoters**

RGIPL was promoted by Mr. Ashok Kumar Gupta and his son Mr. Nikhil Gupta. Mr. Ashok Kumar Gupta has more than 25 years of experience in the Steel sector and has been instrumental in setting up the manufacturing facility at Bhavnagar. His son Mr. Nikhil Gupta has been associated with the company since inception and looks after the overall operations of the company. The promoters are well supported by qualified and experienced professionals in managing the day to day affairs of the company.

- **Established Brand with strong distribution network**

The company markets its products under the brand “Rudra TMX”. The company has been able to build a strong brand presence in Gujarat through its network of around 400 dealers and 12 distributors.

- **Moderate gearing**

RGIPL has a comfortable long-term debt equity ratio of 0.22x and a moderate overall gearing ratio at 0.74x as on March 31, 2019 as against a long-term debt equity ratio of 0.31x and overall gearing of 0.81x as on March 31, 2018. To arrive at the net worth, Infomerics has considered unsecured loans amounting to Rs.20 crore from promoters/ body corporates as quasi equity as the same is subordinated to the bank facilities.

However, the overall gearing of the company moderated in H1FY20 due to increase in its short-term borrowings and stood at 1.49x as on September 30, 2019.

Key Rating Weaknesses

- **Moderation in financial performance in 9MFY20**

RGIPL's total operating income witnessed a y-o-y growth of ~44% in FY19 driven by increase in volume sale as well as average sales realisation of billets and TMT bars. Despite increase in total operating income, the EBITDA margin of the company dampened from 7.65% in FY18 to 5.78% in FY19. However, the company has earned healthy gross cash accruals of Rs.20.74 crore in FY19 (Rs.17.46 crore in FY18). During 9MFY20, the company earned a total operating income of Rs.290.89 crore with a PAT of Rs.1.64 crore as against total operating income of Rs.447.03 crore and PAT of Rs.9.28 crore in 9MFY19. The moderation in its total operating income was due to subdued market demand in FY20 leading to decline in volume sales coupled with adverse movement in realisations. Further, there was a steady increase in interest cost during the aforesaid period owing to rise in its short term borrowings which also affected the profitability. Infomerics expects moderation in RGIPL's total operating income and profit levels in FY20. With moderation in profit level, the debt protection metrics also witnessed impairment marked by deterioration in interest coverage from 4.70x in FY19 to 1.66x in 9MFY20.

- **Susceptibility of operating margin to volatility in prices of raw material and finished goods**

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 billets are coal, iron ore and sponge iron while billets are the main raw material for producing TMT bars. However, the company mainly use steel scraps for manufacturing of billets. The company procure steel scraps from its group company Rudra Green Ship Recycling Pvt Ltd (RGSRPL, rated: IVR BBB (CE)) which is engaged into ship breaking activities. However, the price of scrap metal remains volatile in nature and is governed by international metal prices and quality of scrap. Thus, RGIPL's profitability remains susceptible to risk associated with volatility in prices of raw material. Moreover, the company has no captive power arrangements (CPP) and procure power from state utilities. Due to lack of CPP, the profitability of the company is exposed to revision in power tariffs which witnessed an upward revision in FY19. Apart from raw materials, the prices of its finished products are also highly volatile and exposed to demand supply situations and macro-economic scenarios.

- **Intense competition**

The steel manufacturing businesses is characterised by intense competition across the value chain due to low product differentiation, and consequent intense competition, which limits the pricing flexibility of the players, including RGIPL.

- **Exposure towards group companies**

The bank facilities of RGSRPL is backed by a corporate guarantee from RGIPL. Hence, the credit risk profile of RGIPL is exposed to the performance of RGSRPL.

- **Foreign currency fluctuation risk**

RGIPL started export sales from October 2017. The company generated ~13% of its revenue through export of its finished products in FY19. Consequently, the company remains exposed to the fluctuations in forex rates. The company enters into forward contracts from time to time to hedge risk on account of foreign exchange fluctuation.

- **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 RGIPL. The steel industry has 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 demand-supply dynamics in the real estate sector.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity: Adequate

The liquidity position of the company is expected to remain adequate marked by its expected sufficient cushion in accruals vis-à-vis its repayment obligations in FY20 and FY21. However, the liquidity position is constrained due to high average utilisation of ~97% for the past twelve months ended December, 2019 in its bank limits indicating a low liquidity buffer. Further, as the company's business is expected to record a moderation in its total revenue in the medium term, efficient management of working capital requirement would remain crucial, going forward.

About the Company

Rudra Global Infra Products Limited (RGIPL), formerly known as MD Inducto Cast Limited, based in Bhavnagar, Gujarat was incorporated in 2010. The company is engaged in manufacturing of billets and TMT Bars and has its manufacturing facility at Bhavnagar with an installed capacity of 2,40,000 MTPA for billets and 1,20,000 MTPA for TMT bars. The company was listed on BSE SME Exchange in 2015 and was migrated to BSE Mainboard Platform on December 5, 2017.

RGIPL is the flagship company of the MD Group. Other entities of the Group include Rudra Green Ship Recycling Private Ltd., formerly known as Harikrishna Steel Corporation (engaged in Ship breaking activity), Chintamani Oxygen (engaged in manufacturing of oxygen and other industrial gases) and Sonthalia Steel Rolling Mills Private Limited (engaged in manufacturing of MS billets).

The company sells its products under the brand name, 'Rudra TMX' and mostly operates in the state of Gujarat through its network of dealers and distributors.

Financials (Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	386.60	557.25
EBITDA	29.57	32.20
PAT	11.28	15.75
Total Debt #	52.08	73.71
Tangible Net worth	64.38	80.15
Adjusted Net worth	64.38	100.15
EBITDA Margin (%)	7.65	5.78
PAT Margin (%)	2.91	2.80
Overall Gearing Ratio (x)	0.81	0.74

**Classification as per Infomerics' standards.*

 # Unsecured loans of Rs.20.00 crores bought in by the promoter/body corporates in FY19 are subordinated to the term loans and hence not considered as debt. The same has been considered as a part of adjusted net worth and the debt ratios have been calculated accordingly.

Status of non-cooperation with previous CRA: CRISIL has moved the rating of RGIPL 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 December 20, 2019.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	**Amount outstanding (Rs. Crore)**	**Rating**	**Date(s) & Rating(s) assigned in 2018-19**	**Date(s) & Rating(s) assigned in 2017-18**	**Date(s) & Rating(s) assigned in 2016-17**
1.	Cash Credit	Long Term	80.00	IVR BBB-/ Stable Outlook	IVR BBB/ Stable Outlook (March 18, 2019)	-	-
2.	Term Loan 1	Long Term	0.12 * (reduced from Rs.0.79 crore)	IVR BBB-/ Stable Outlook	IVR BBB/ Stable Outlook (March 18, 2019)	-	-
3.	Term Loan 2	Long Term	48.30 * (including proposed limit of Rs.43.00 crore and reduced from Rs.57.00 crore)	IVR BBB-/ Stable Outlook	IVR BBB/ Stable Outlook (March 18, 2019)	-	-
4.	Bank Guarantee	Long Term	18.00	IVR BBB-/ Stable Outlook	IVR BBB/ Stable Outlook (March 18, 2019)	-	-

**outstanding as on December 31, 2019*

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 Analyst:

Name: Ms. Harshita Didwania Tel: (033) 46022266 Email: nsukhani@infomerics.com	Name: Mr. Avik Podder Tel: (033) 46022266 Email: apodder@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. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Ratings Assigned/ Outlook
Long Term Fund Based Facilities - Cash Credit	-	-	-	80.00	IVR BBB- / Stable Outlook
Long Term Facilities-Term Loan 1	-	-	March, 2020	0.12 * (reduced from Rs.0.79 crore)	IVR BBB- / Stable Outlook
Long Term Facilities-Term Loan 2	-	-	September, 2026	48.30 * (including proposed limit of Rs.43.00 crore and reduced from Rs.57.00 crore)	IVR BBB- / Stable Outlook
Long Term Non Fund Based Facilities-Bank Guarantee	-	-	-	18.00	IVR BBB- / Stable Outlook
Total				**146.42**	

**outstanding as on December 31, 2019*