Press Release

Ratnaveer Precision Engineering Limited

January 18, 2024

Ratings

Instrument / Facility	Amount (Rs. Crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	73.94	IVR BBB+/ Stable Outlook [IVR Triple B plus with Stable Outlook]	Revised	Simple
Short Term Bank Facilities	158.00	IVR A2 [IVR A Two]	Revised	Simple
Total	**231.94 (Rupees Two Hundred and Thirty-one Crore and Ninety-four Lakhs Only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The rating revised to the bank facilities of Ratnaveer Precision Engineering Limited (RPEL) derives strength from successful completion of IPO results into improvement in net worth and debt protection metrics, increase in share of value-added products in overall revenue resulting in improvement in profitability, capex plan and its benefits, improvement in scale of operations and profitability margins coupled with moderate order book position indicating short term revenue visibility, long track record of operation and extensive experience of promoters in steel industry, synergistic business models focused on backward integration, diversified customer profile. The rating is however constrained on account of working capital intensive nature of operations, operates in highly competitive and fragmentated industry, profit margins exposed to fluctuations in steel price movements and foreign exchange risk.

Key Rating Sensitivities:

Upward Factors

- Successful timely completion of capex along with significant growth in revenue with higher contribution from value added product and improvement in EBITDA margins while maintaining the current credit profile.

Downward Factors

- Significant decline in revenue and/or decline in EBITDA margins and/or any large unplanned debt funded capex leading deterioration in credit profile.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Successful completion of IPO results into improvement in net worth and debt profile.**

  RPEL has successfully completed its initial public offerings and raised Rs.165.03 crore which includes OFS of Rs 30 crore (Net proceeds after IPO expenses are at Rs.115 crore). This results in improvement in Net worth which has increased from Rs 100.5 crore in FY 23 to Rs 237 crore in 1HYF 24. The capital structure marked by adjusted overall gearing has improved and stood at 0.75x as on 1HYFY24 {vis-à-vis 0.87x as on FY23}., total outside liabilities to adjusted tangible net worth ratio has also improved and stood at 0.94x as on 1HFY24 {vis-à-vis 2.72x as on FY23}.

- **Increase in share of value-added products in overall revenue and improvement in profitability.**

  The share of value-added products in the overall revenue has been improved on a y-o-y basis from 10% in FY22 to 18% in 1HFY24, which in turn resulted into improvement in EBITDA margins which have improved to 10.7% in 1HFY24 as compared to 6.46% in FY22. Infomerics expects, with the expected addition to the product portfolio EBITDA margins are further expected to improve 11% by FY25.

- **Capex Plans and benefits**

RPEL is incurring capex of Rs 45.94 crores to enhance its product portfolio capacities and installation of 2MW solar power plant for captive use. The capex is funded through a mix of debt (71%) and equity (29%), RPEL has already tied up for the funds for this capex. The capex is likely to be complete by July 24, and post this capex REPL will benefit due to lower power and fuel cost and enhanced product portfolio which will result in optimum operating efficiency.

- **Improvement in scale of operations and profitability margins coupled with moderate order book position indicating short term revenue visibility.**
  RPEL witnessed consistent growth in the total operating income (TOI) over the past three years and stood at Rs.479.75 crore in FY23 {as against Rs.359.66 crore in FY21 and Rs.426.94 crore in FY22}. The improvement in the turnover levels of the RPEL has been primarily on account of an increase in better capacity utilization of 78% in FY23 as compared to 76% in FY22. Further RPEL has healthy order book of Rs.72.18 crore as on 14-dec-2023 to be executed over next four months, provides short term revenue visibility.

- **Long track record of operation and extensive experience of promoters in steel industry.**
  RPEL, incorporated in 2002 and commenced its operations since 2002 under the leadership of Sanghvi family and thus the company has a long track record of operations of two decades in the stainless steel industry resulting in established relationship with customers with successful widespread in domestic as well as global market. Apart from directors, the RPEL has a well experienced and qualified management team to execute and monitor the work undertaken for satisfactory completion.

- **Synergistic business models focused on backward integration.**
  RPEL has developed a synergistic system of backward integration whereby it processes the scrap generated in manufacturing of their products for converting back into the raw material which is utilized again in manufacturing. Thus, the raw material required is also being generated in-house, while the waste being produced in the manufacturing process is being completely utilized, ensuring economies of scale and minimal wastage. This

Backward integration helps in achieving efficiency in the production process and gaining competitive advantage, reducing in product costs, control over supply of raw materials and reduce our dependency on third parties for our operations.

- **Diversified customer profile.**
  RPEL sell its products both in the domestic as well as international markets. In the domestic market, they sell their products to the manufacturers as well as traders / stockiest and end customers while in the international market they supply their products through traders / stockiest in the international market. Further it has been exporting since incorporation and as on date, some of the countries including namely Germany, UK, Spain, Netherland, etc. Thus, diversified customer base profile signifies non-dependence on any single customer and thereby hedges its business operations from potential customer specific risk, sector specific risks, change in global markets and international relations etc.

Key Rating Weaknesses

- **Working capital intensive nature of operations.**
  RPEL operations remain working capital-intensive, as its business requires a significant amount of working capital primarily as a considerable amount of time passes between purchase of raw materials and collections of receivables post sales to customers. As a result, the RPEL is required to maintain sufficient stock at all times in order to meet manufacturing requirements as well as to offer extended credit periods to customers with a view to maintaining long-term relationship. The operating cycle of the RPEL has elongated and stood at 167 days in FY23 {as against 139 days in FY22}. Further, in absolute terms receivables and inventory amount has increase from Rs.40.29 crore and Rs.171.28 crore in FY22, to Rs.63.37 crore and Rs.205.08 crore in FY23. As a result of the same the average utilization of its working capital limits stood high at ~90% during the past 12 months ended as on October 31, 2023. However efficient working capital management will remain a key rating sensitivity from the rating perspective.

- **Operates in highly competitive and fragmentated industry.**

RPEL operates in an industry which is highly competitive and fragmented and competes with a range of organized and unorganized players, both at the national and regional level. Further, while RPEL has an expanding portfolio of products, their competitors may have the advantage of focusing on concentrated products. Further, the company competes against established players also, which may have greater access to financial, technical, and marketing resources and expertise available to them than RPEL in the products and services in which we compete against them.

- **Profit margins exposed to fluctuations in steel price movements and foreign exchange risk.**
  RPEL is vulnerable to the volatility in the raw material and finished goods prices. The prices of key raw materials, such as stainless scraps, SS Sheets and SS coils have shown a volatile trend over the years and are determined by market forces. Further, the RPEL profitability remains exposed to adverse fluctuations in foreign currency, which is partially mitigated by certain degree of cross hedging.

Analytical Approach: Standalone

Applicable Criteria:

Criteria of Rating Outlook | Infomerics Ratings
Rating Methodology for Manufacturing Companies
Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity – Adequate

RPEL has adequate liquidity supported by estimated net cash accruals of over Rs.35-90 crore per annum against repayment obligations of Rs.5-8 crore per annum over the medium term. The bank limit remains highly utilized at around 90% for past 12 months ended October 2023 due to large working capital requirement. The timely completion of capex along with utilization of limits and controlled working capital cycle with increasing scale of operations will remain monitorable factor. Further RPEL has free cash and balance Rs.3.50 crore as on March 31, 2023. The current ratio remained at 1.34 times for fiscal 2023.

About the Company

RPEL, manufactures stainless steel products in Vadodara (Gujarat). RPEL is promoted by Mr. Ramanand Sanghvi and currently managed by Mr. Vijay Sanghvi and family. The Company manufactures stainless steel washers, solar mounting hooks, finishing sheets and SS tubes & pipes products, which find application in elevators, doors, and home appliances. The company produce more than 2500 washers in different sizes and international standards. The company incorporates an in-house backward integrated manufacturing facility, which makes them independent to manufacture any product size at any time.

Financials (Standalone)*:

(Rs. Crore)

For the year ended / As on	31-Mar-2022 (Audited)	31-Mar-2023 (Audited)
Total Operating Income	426.94	479.75
EBITDA	27.56	45.63
PAT	9.57	25.04
Total Debt	75.70	87.14
Tangible Net worth	67.76	100.50
EBITDA Margin (%)	6.46	9.51
PAT Margin (%)	2.23	5.21
Overall Gearing Ratio (times)	1.12	0.87

**Classification as per Infomerics standards*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating History for last three years:

No	Name of Instrument /Facilities	(Year 2023-24)			Credit Rating Agency	Rating History for the past 3 years		
		Amt. (Rs. Crore)	Rating	Last Rating Action		Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-2021
PR Date		15-Jun-2023						
1.	Long Term Bank Facilities	74.98	IVR BBB / Positive Outlook	Assigned	Infomerics Valuation and Rating Private Limited	-	-	-
2.	Short Term Bank Facilities	150	IVR A3	Assigned		-	-	-
3.	Long Term / Short Term Bank Facilities	8	IVR BBB / Positive Outlook / IVR A3	Assigned		-	-	-

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About Infomerics:

Infomerics Valuation and Rating Private Limited (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.

For more information visit www.infomerics.com

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 – Fund Based – GECL Loan	–	–	Nov-2025	5.00	IVR BBB +/stable
Long Term – Fund Based – ECLGS – I	–	–	Jul-2025	3.53	IVR BBB +/stable
Long Term – Fund Based – ECLGS – II	–	–	Oct-2025	2.06	IVR BBB +/stable
Long Term – Fund Based – Cash Credit	–	–	–	62.00	IVR BBB +/stable
Long Term – Fund Based – Gold Card Limit	–	–	–	1.35	IVR BBB +/stable
Short Term – Non-Fund Based – Letter of Credit	–	–	–	157.89	IVR A2
Short Term – Non-Fund Based – Bank Guarantee	–	–	–	0.11	IVR A2

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

Annexure 3: Facility wise lender details

https://www.infomerics.com/admin/prfiles/len-Ratnaveer-Precision-jan24.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.