Rayalaseema Industries (India) Private Limited

September 05, 2023

Ratings

Facility	Amount (Rs. Crore)	Ratings	Rating Action	Complexity Indicator
Long-Term Bank Facilities	40.64	IVR BBB-; Stable (IVR Triple B Minus with Stable outlook)	Assigned	Simple
Short-Term Bank Facilities	0.04	IVR A3 (IVR Single A Three)	Assigned	Simple
Total	**40.68 (INR Forty crore and Sixty-eight lakhs only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Rayalaseema Industries (India) Private Limited (RIIPL) derives strength from its long track record of operation under experienced promoters and partially integrated operation with satisfactory capacity utilization. Further, the ratings also considered improved business performance of the company in FY23 with satisfactory capital structure and moderate debt protection metrics. However, these rating strengths remain partially offset by its thin profitability and volatility associated with fluctuation in raw material prices, exposure to intense competition and cyclicity in the steel industry.

Key Rating Sensitivities:

Upward factors

- Significant growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals on a sustained basis.
- Sustenance of the capital structure with improvement in interest coverage ratio to over 3.5x.
- Improvement in working capital management leading to improvement in operating cycle and liquidity.

Downward Factors

- Decline in revenue and profitability leading to deterioration in GCA and debt protection metrics on a sustained basis.

- Withdrawal of subordinated unsecured loans and any unplanned capex leading to impairment in the capital structure with moderation in overall gearing to over 1.5x and interest coverage below 2x
- Stretch in the working capital cycle driven by pile-up of inventory or stretched receivables, or sizeable capital expenditure affecting the liquidity.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths:

- **Experienced promoters with long track of operations**

RIIPL was incorporated in the year 2004 and started its commercial production from the year 2005. Hence, it has around two decades of operational track record. Further, all the promoters have significant industry exposure which would be extremely beneficial for the company going forward.

- **Partially integrated operation with satisfactory capacity utilization**

RIIPL has manufacturing facilities of MS Billets which is used in manufacturing of structural products like angle channel etc. which ensures that operation is partially integrated. Further, the capacity utilization of the company has improved gradually over the past couple of years which stood at more than ~85% in FY23.

- **Improved business performance in FY23 and in Q1FY24**

The total operating income (TOI) of RIIPL has witnessed a growing trend over the past couple of years as the topline has surged from ~Rs.101.31 crore in FY20 to ~Rs.310.70 crore in FY22. The topline in FY23 (Prov.) has grown further to ~Rs.371.30 crore after registering an y-o-y growth of ~19.50%. The improvement in topline is mainly driven by higher sales volume backed by improved capacity utilization along with better sales realisation. The growth in topline has continued and in Q1FY24, RIIPL has earned a revenue of ~Rs.122 crore. Driven by improved topline in FY23 (Prov.), the absolute EBITDA of RIIPL has increased to Rs.15.68 crore in FY23 against Rs.10.46 crore in FY22. Gross cash accruals of RIIPL have also improved marginally and stood at Rs.7.40 crore in FY23 (Prov.) as against Rs.6.64 crore of FY22.

- **Satisfactory capital structure with moderate debt protection matrices**

The capital structure of the company has remained moderate marked by its moderate net worth base. However, supported by the subordinated unsecured loan amounting to Rs.50 crore from related parties which is treated as quasi equity, the Adjusted Tangible Net worth

(ATNW) stood at Rs. 65.88 crore as on March 31, 2023. Despite the rise in total debt level mainly driven by increase in working capital borrowings in FY23, long-term debt to equity and overall gearing based on ATNW stood satisfactory at 0.41x and 0.91x respectively as on March 31, 2023. Total indebtedness of the company marked by TOL/ATNW remained satisfactory at 1.67x as on March 31,2023. Notwithstanding the rise in absolute EBITDA, affected by the increased finance cost, the debt protection metrics marked by interest coverage ratio has moderated yet remains satisfactory at 2.19x in FY23(Prov.) against 2.68x in FY22. Total debt to EBITDA and Total debt to GCA remains stretched at 3.83x and 8.12x respectively as on March 31, 2023.

Key Rating Weaknesses:

- **Thin profitability**

Driven by the improved topline in FY23 (Prov.), the operating margin has improved from 3.36% in FY22 to 4.22% in FY23. The PAT margin of the company though improved gradually over the past couple of years yet continues to remain thin at 1.14% in FY23 (Prov.) against 1.02% of FY22.

- **Volatility associated with fluctuation in raw material prices**

The raw material cost accounts for ~80-90% of total cost of sales since last three years. The major raw materials of the company are sponge iron, pig iron etc., the prices of which are highly volatile in nature and determined based on global demand supply matrix. Hence, any significant rise in metal price leads to increase in overall cost which likely to impact the profitability of the company. Further, the company lacks captive power and backward integration for its basic raw-materials and has to procure the same from the open market.

- **Exposure to intense competition**

Steel industry is highly competitive due to presence of many organised and unorganised players which restricts the pricing power of the participants. Further, the industry is induced by global demand supply situations.

- **Exposure to cyclicality in steel industry**

The steel industry is highly cyclical in nature and is correlated with economic development, seasonal changes in the demand and supply conditions in the market, which directly affects its fortunes. This is the inherent risk of the steel industry.

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 the company is expected to be adequate marked by expected adequate gross cash accruals in the range of ~Rs.8.50-11.50 crore during FY24-FY26 which is likely to be to be sufficient to meet its minimal debt obligations ranging from ~Rs.0.88 crore-0.16 crore if there is no unplanned capex during the period. The company has a comfortable current ratio of 1.82x as on March 31, 2023. Further, support in the form of unsecured loans from related parties provide additional comfort to RIIPL. However, the liquidity position of the company is restricted due to its high working capital intensity marked by the high average working capital utilization of ~87% for past twelve months ending June 2023.

About the Company

Rayalaseema Industries (India) Private Limited (RIIPL) was incorporated in the year 2004 by Mr Inder Karan Agarwal and started its commercial production from 2005. The company is engaged in manufacturing of long and flat steel products, primarily thermo-mechanically treated bars, billets, mild steel angles and beam channels and structural steel of varying thickness. The plant of RIIPL is in Mahbubnagar District of Telangana and it sells its products under the brand name of, 'SHRISHTII'. Mr. Rahul Bawri and Mr. Rakesh Mourya are the current directors of the company. Chhattisgarh Power & Coal Beneficiation Limited is the major stake holder with ~61% of holding along with Nav Durga Fuels Private Limited headed by Mr. Nimish Gadodia, holding ~13% of RIIPL's share.

Financials of Rayalaseema Industries (India) Private Limited (Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2022	31-03-2023
	Audited	Provisional
Total Operating Income	310.70	371.30
EBITDA	10.46	15.68
PAT	3.16	4.24
Total Debt	84.98	60.06

Tangible Net worth	11.65	15.88
Tangible Net worth including Quasi	11.65	65.88
EBITDA Margin (%)	3.36	4.22
PAT Margin (%)	1.02	1.14
Overall Gearing Ratio Adjusted (x)	7.30	0.91
Interest Coverage	2.68	2.19

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/ Facilities	Current Rating (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Cr.)	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	Long Term	0.64	IVR BBB-/ Stable	-	-	-
2.	Cash Credit	Long Term	40.00	IVR BBB-/ Stable	-	-	-
3.	Bank Guarantee	Long Term	0.04	IVR A3	-	-	-

Name and Contact Details of the Rating Analyst:

Name: Mr. Avik Podder

Tel: (033) 46022266

Email: apodder@infomerics.com

About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

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

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary. 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. Cr)	Rating Assigned/ Outlook
Long Term Fund Based Limits –Term Laon	-	-	Dec 2025	0.64	IVR BBB-/ Stable
Long Term Fund Based Limits –Cash Credit	-	-	-	40.00	IVR BBB-/ Stable
Short Term Non-Fund Based Limits –Bank Guarantee	-	-	-	0.04	IVR A3

Annexure 2: Facility wise lender details:

https://www.infomerics.com/admin/prfiles/len-ripl-sep23.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 www.infomerics.com