



Press Release

Rayalaseema Steel Re Rolling Mills Private Limited

September 20, 2022

Ratings

Facility	Amount (Rs. Crore)	Ratings	Rating Action	Complexity Indicator
Long-Term Bank Facilities	30.75	IVR BB; Stable (IVR Double B with Stable Outlook)	Assigned	Simple
Long-Term Bank Facilities (Proposed)	15.00	IVR BB; Stable (IVR Double B with Stable Outlook)	Assigned	Simple
Short Term Bank Facilities	3.00	IVR A4 (IVR A Four)	Assigned	Simple
Total	48.75 (INR Forty-eight crore and seventy-five lakhs only)			

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Rayalaseema Steel Re Rolling Mills Private Limited (RSRM) derives comfort from long track record of the entity under experienced promoters, established brand name with long standing relationship with its clients and improvement in its scale of operation in FY22 (provisional). These rating strengths are partially offset by thin profitability of the company leading to moderate debt protection metrics along with its moderate capital structure. Further, the ratings also note exposure of profitability to raw material price volatility, highly competitive and cyclical nature of the industry coupled with its exposure to geographical concentration risk and working capital intensive nature of its operation.

Key Rating Sensitivities:

Upward factors

- Growth in scale of operations on a sustained basis and consequent improvement in profitability.
- Sustenance of the capital structure with further improvement in debt protection metrics.
- Improvement in operating cycle and liquidity profile.



Press Release

Downward Factors

- Moderation in scale of operations and/or profitability impacting the liquidity profile on a sustained basis.
- Withdrawal of subordinated unsecured loan of Rs.10.63 crore and/or any moderation in the capital structure with moderation in the overall gearing to over 4x.
- Moderation in the liquidity profile

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced promoters and long track record of the company**

Incorporated in 2007, RSRM has a long track record of around fifteen years in the industry. RSRM is promoted by Mr. Kanhaiya Agarwal & Mr. Balram Agarwal. Mr. Kanhaiya Agarwal who is the Managing Director of RSRM has around twenty-five years of experience in the similar line of business and looks after the production and day-to-day operations of the company. He is well supported by Mr. Balram Agarwal, brother of Mr. Kanhaiya Agarwal, who also possess about twenty years of business experience and looks over both production & business development functions of the company.

- **Established Brand name with long standing relationship with client**

The company operates with the brand tag of “RSRM”. Being in the industry for more than fifteen years, the company has built up a strong relationship with its clients that helps to procure regular business from them and also established its brand in the market.

- **Improvement in scale of operation in FY22 (Provisional)**

The total operating income of the company witnessed gradual improvement over the past three fiscals driven by gradual rise in average sales realisation coupled with rise in sale volume. Further, the improvement in sales volume is equally supported by improved capacity utilization during the period from ~39% in FY21 to ~45% in FY22.

Key Rating Weaknesses:

- **Susceptibility of profitability to raw material price volatility**

The major raw material for RSRM is scrap, sponge iron, and MS billets. The raw material cost as a percentage of total cost of sales was ~98% during FY22. With gradual upward movement and strong volatility in input price directly impacts the profitability of the company.



Press Release

Further, prices of steel products are volatile in nature and are driven by the demand supply scenario prevailing on a particular day and by the global prices which affect the profitability of the company.

- **Highly competitive and cyclical nature of industry**

The steel industry is highly competitive due to presence of various organized and unorganized players and limited product diversity due to commodity nature of products. Although over the years, industry has become more organized with the share of unorganized players reducing, but margins continue to be under pressure due to fragmentation of the industry. Also, the steel industry is sensitive to shifting business cycles including changes in general economy, interest rates and seasonal changes in demand and supply conditions in market.

- **Exposure to geographical concentration risk**

The company majorly sales its product within Hyderabad under the brand name of 'RSRM'. Since, the top customers from which majority of revenue is generated are based on Hyderabad, any political and economic unrest can cause major revenue crunch for the company.

- **Thin profitability**

The profitability of the company remained thin over the years marked by its below unity PAT margin. Consequently, the firm has witnessed a marginal increase in its cash accrual from Rs.0.69 crore in FY21 to Rs.1.09 crore in FY22 (Prov.) Further, the EBITDA margin of the company had witnessed an erratic trend over the last couple of years as it improved from 3.57% in 2019 to 8.85% in FY20, followed by a gradual dip in FY21 and FY22 (Prov.) to 5.22% and 3.52% respectively owing to higher raw material and fuel cost.

- **Moderate capital structure and moderate debt protection matrices**

The capital structure of the company remained moderate as on March 31, 2022, marked by its moderate adjusted net worth base of Rs.23.76 crore including the subordinated unsecured loan of Rs.10.63 crore. The debt profile of RSRM mainly consists cash credit and covid loans. Both the long-term debt to equity and the overall gearing has improved and stood comfortable at 0.33x and 1.54x respectively as on March 31, 2022, against 0.46x and 1.73x respectively as on March 31, 2021. Total indebtedness of the company as reflected by



Press Release

TOL/ATNW though moderated yet remained comfortable at 2.99x as on March 31, 2022. The debt protection matrices as reflected by the interest coverage ratio and Total debt to EBITDA has improved in FY22 though remained moderate at 1.26x and 6.78x respectively.

- **Working capital intensive nature of operation**

The operation of the company remained working capital intensive marked by its high GCA of 211 days in FY22 owing to its high average inventory and moderate average debtor's collection period. Of the total debtor outstanding as on March 31, 2022, the company has ~38.53% of debtor due for more than six months. To support its high working capital requirements, the company depends on its working capital borrowings from the banks as reflected in its average utilization of bank limits which remained around ~94% in the past 12 months ended in August 2022. The operating cycle of the company though improved, remained elongated at 70 days in FY22 as compared to 103 days in FY21.

Analytical Approach: Standalone

Applicable Criteria:

[Rating Methodology for Manufacturing Companies](#)

[Financial Ratios & Interpretation \(Non-Financial Sector\)](#)

[Criteria of assigning rating outlook](#)

Liquidity: Stretched

The liquidity profile of RSRM is stretched marked by its high working capital utilization along with its high GCA days of 211 days in FY22. The working capital of the company has been utilised to the extent of ~94% for past twelve months ended in August 2022. However, the liquidity position is expected to improve in the near term with gradual growth in scale of operations and consequent improvement in profitability coupled with expected cash inflow from sale of its group companies where RSRM has exposures.

About the Company

RSRM is a Hyderabad based company promoted by Mr. Kanhaiya Agarwal & Mr. Balram Agarwal. The company was incorporated on November 01, 2007, and it is engaged in manufacturing and sales of steel products such as angles, channels and beams under the brand 'RSRM'. The company has its manufacturing facilities located at Nandigaon Village, Kothur Mandal with an annual production capacity of 60,000 Metric Tons (MT).



Press Release

Financials of Rayalaseema Steel Re Rolling Mills Private Limited (Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2021	31-03-2022
	Audited	Provisional
Total Operating Income	102.81	152.92
EBITDA	5.37	5.38
PAT	0.25	0.76
Total Debt	40.85	36.49
Adjusted Tangible Net worth	23.60	23.76
EBITDA Margin (%)	5.22	3.52
PAT Margin (%)	0.24	0.49
Overall Gearing Ratio (x)	1.73	1.54
Interest Coverage Ratio (x)	1.12	1.26

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA:

CARE Edge ratings vide its press release dated February 07,2022 moved the rating to issuer not cooperating category due to non-submission of information by the company.

CRISIL vide its press release dated November 16 ,2021 maintained the rating in issuer not cooperating category due to non-submission of information by the company.

Any other information: Nil

Rating History for last three years:

(Rs. Crore)

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2022-23)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Cr.)	Rating	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20
1.	Cash Credit	Long Term	27.00	IVR BB; Stable	-	-	-
2.	GECL	Long Term	3.75	IVR BB; Stable	-	-	-
3.	Letter of Credit	Short Term	3.00	IVR A4	-	-	-
4.	Proposed	Long Term	15.00	IVR BB; Stable	-	-	-

Name and Contact Details of the Rating Analyst:

Name: Indranil Mukherjee	Name: Mr. Avik Podder
Tel: (033) 46022266	Tel: (033) 46022266



Press Release

Email: indranil.mukherjee@infomerics.com

Email: apodder@infomerics.com

About Infomerics Ratings:

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

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 (Rs. Cr)	Rating Assigned/ Outlook
Long Term Fund Based Limits – Cash Credit	-	-	-	27.00	IVR BB; Stable
Long Term Fund Based Limits - GECL	-	-	Aug 2024	3.75	IVR BB; Stable
Short Term Non-Fund Based Limits – Letter of Credit	-	-	-	3.00	IVR A4



Press Release

Long Term Fund Based Limits - Proposed	-	-	-	15.00	IVR BB; Stable
--	---	---	---	-------	----------------

Annexure 2: Facility wise lender details:

<https://www.infomerics.com/admin/prfiles/Len-Rayalaseema-Steel-sep22.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.

