Press Release

Renny Strips Private Limited

April 10, 2023

Ratings

Facilities	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	105.48 (Enhanced from Rs.101.49 crore)	IVR BBB/ Stable (IVR Triple B with Stable Outlook)	Reaffirmed	Simple
Short Term Based Bank Facilities	8.06 (Enhanced from Rs.5.56 crore)	IVR A3+ (IVR A Three Plus)	Reaffirmed	Simple
Total	**113.54 (Rupees One Hundred and Thirteen crore and Fifty Four lakh only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The reaffirmation in the ratings assigned to the bank facilities of Renny Strips Private Limited (RSPL) takes into account improvement in the operational and financial performance of the company in FY22 and 11MFY23, as reflected in the increase in scale of operations and profitability. The ratings continue to derive strength from the extensive experience of the promoters in the steel industry, moderate financial risk profile and efficient working capital cycle. The ratings are, however, constrained by risks associated with volatility in the raw material prices, intense competition and cyclicality in the steel industry.

Key Rating Sensitivities:

Upward Factors

- Growth in total operating income of more than 25% on a sustained basis.
- Improvement in EBITDA margin above 6% on a sustained basis.
- Improvement in capital structure with overall gearing of less than 0.50x.

Downward Factors

- Dip in operating income and/or profitability impacting the debt coverage indicators.

- Withdrawal of subordinated unsecured loan (treated as quasi-equity) amounting to Rs.20.50 crore either partially or fully, and/or moderation in the capital structure.
- Deterioration in operating cycle impacting the liquidity.
- Any un-envisaged incremental debt funded capital expenditure leading to a deterioration in its overall gearing ratio.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Extensive experience of the promoters in the steel Industry

RSPL was started by Mr. Dev Raj Gupta, who is the father of the current promoter and Managing Director of RSPL, Mr. Binny Gupta. Mr. Dev Raj Gupta has a long experience of 41 years in the steel industry. Mr. Binny Gupta has an experience of more than 24 years in the industry. He looks after the overall operations of the company. His wife, Mrs. Chetna Gupta, is the other promoter of the company with an experience of more than 7 years in the steel industry; she looks after the administration and accounts of RSPL. RSPL benefits from the long experience of its promoters in the industry, which has helped it develop strong relationship with the customers and suppliers. The company has a team of experienced professionals, having close to two decades of experience in their respective fields.

Increase in scale of operations in FY22 and 11MFY23

The company's revenue remained range bound between Rs.210-230 crore in FY19-21 due to lower volume of sales owing to fluctuations in steel prices due to covid-19. However, it improved substantially by around 35% in FY22, from Rs.231.35 crore in FY21 to Rs.311,11 crore in FY22 due to increase in volume of sales as well as better realisations. In 11MFY23, RSPL's revenue increased by 68.80%, from Rs.276.62 crore in 11MFY22 to Rs.466.91 crore in 11MFY23 due to increase in volume of sales.

The company has completed a capex of Rs.63.09 crore in September 2022 whereby its installed capacity has increased from 63,360 MTPA to 1,82,160 MTPA. The capex was funded by way of term loans of Rs.38.00 crore, unsecured loans from promoters of Rs.13.58 crore, equity infusion of Rs.4.00 crore and balance Rs.7.51 crore of internal accruals. Post commissioning of the increased capacity, RSPL has reported monthly sales of Rs.30.40 crore and Rs.47.79 crore in October 2022 and November 2022. Going forward, the significant increase in installed capacity is expected to benefit the company in many ways like increasing its scale of operations, giving it economies of scale etc.

Improvement in profitability in FY22

The company's profitability has been improving year-on-year for the last few years. EBITDA margin increased from 2.50% in FY20 to 4.30% in FY22. The improvement in profitability is majorly due to better cost management and reduction in raw material cost during FY20-22. The PAT margin of the company also improved from 0.73% in FY20 to 2.48% in FY22**.** In line with the improvement in profitability, RSPL's GCA improved in FY19-22, with 58% jump in FY22 itself, albeit on a low base.

In 11MFY23, although the absolute levels of EBITDA and PAT have improved, there is a decline in the PAT margin due to high finance cost charged during the current year. With the steel prices stabilizing in Q1FY24, RSPL is expected to benefit from the same going forward.

Moderate financial risk profile

The financial risk profile of the company is marked by moderate capital structure and debt protection metrics. RSPL has recently commissioned a capex which was largely funded by way of debt. As such its capital structure has deteriorated slightly with overall gearing and TOL/ TNW (based on networth adjusted for quasi equity) from 0.78x and 1.09x respectively as on March 31, 2021 to 1.06x and 1.51x respectively as on March 31, 2022, but continues to be moderate. The promoters have been regularly infusing funds by way of unsecured loans which are subordinated to the bank debt, which keeps the networth (including quasi equity) at comfortable levels. The debt protection metrics also remained healthy with interest coverage ratio and total debt/ GCA ratio of 5.30x and 6.34x respectively in FY22 as against 4.25x and 3.96x respectively in FY21. Interest coverage ratio was at 4.02x in 11MFY23. With repayments commencing from October 2022, the capital structure and debt protection metrics are expected to improve going forward.

Efficient working capital cycle

The company's working capital cycle is efficient marked by its operating cycle of around 50 days FY22 (FY21: 52 days). RSPL maintains an average inventory of around 30 to 34 days of various varieties and grades for smooth running of operations. It generally extends credit of 7-35 days to its customers and gets 10 days credit from its suppliers. Accordingly, its average collection period continued to remain comfortable at 27 days in FY22 (FY21: 25 days).

Key Rating Weaknesses

Risks associated with volatility in the 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 material used in the production of billets and wire rods is steel scrap. The company does not have any long-term agreement for procurement of steel scrap, and procures most of the scrap requirement from the spot market (domestic or international depending on pricing), thus exposing it to the volatility in the raw material price. Further, the finished steel prices are also highly volatile and prone to fluctuations based on global demand-supply situations and other macro-economic factors, which leaves its profitability highly susceptible to the price volatility.

Intense competition

The steel manufacturing industry 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 RSPL.

Cyclicality in the steel industry

The domestic steel industry is highly cyclical in nature and has witnessed prolonged periods of 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.

Analytical Approach: Standalone

Applicable Criteria:

Criteria of assigning Rating Outlook

Rating methodology for Manufacturing companies

Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity: Adequate

RSPL's liquidity position remained adequate marked by current ratio of 1.38x as on March 31, 2022. The GCA has also improved from Rs.5.74 crore in FY21 to Rs.9.06 crore in FY22. The company's cash accruals are sufficient to meet its repayments in FY23-25. The average utilisation if its working capital facilities is 86.05% in the 12 months ended February 2023, giving it sufficient headroom. The company has completed the capex and has no plans to do more capex in FY24-25.

About the company

Incorporated in 1996 by Mr. Binny Gupta RSPL is engaged in manufacturing a wide range of steel round coil/ wire rods, billets, fasteners, scaffolding and thread bars. Its plant is situated at Village Mangarh, Ludhiana. The plant includes three furnace units, an automatic rolling mill unit and a strip unit. The company has completed a capex of Rs.63.09 crore in September 2022 whereby its installed capacity has increased from 63,360 MTPA to 1,82,160 MTPA as on September 30, 2022.

Financials (Standalone):

(Rs. crore)

For the year ended / As On*	31-03-2021 (Audited)	31-03-2022 (Audited)
Total Operating Income	231.35	311.11
EBITDA	9.19	13.37
PAT	4.43	7.73
Total Debt	22.71	57.42
Adjusted Tangible Networth (including quasi equity)	28.96	54.12
Ratios		
EBITDA Margin (%)	3.97	4.30
PAT Margin (%)	1.91	2.48
Adjusted Overall Gearing Ratio (including quasi equity) (x)	0.78	1.06

*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 Facilities	Current Ratings (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23 (December 27, 2022)	Date(s) & Rating(s) assigned in 2021-22 (January 8, 2022)	Date(s) & Rating(s) assigned in 2020-21
1.	Term Loan	Long Term	53.48	IVR BBB/ Stable	IVR BBB/ Stable	IVR BBB-/ Stable	-

Sr. No.	Name of Facilities	Current Ratings (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23 (December 27, 2022)	Date(s) & Rating(s) assigned in 2021-22 (January 8, 2022)	Date(s) & Rating(s) assigned in 2020-21
3.	Cash Credit	Long Term	52.00	IVR BBB/ Stable	IVR BBB/ Stable	IVR BBB-/ Stable	-
4.	Letter of Credit/ Bank Guarantee	Short Term	5.00*	IVR A3+	IVR A3+	IVR A3	-
5.	Forward Contract	Short Term	0.56	IVR A3+	IVR A3+	IVR A3	-
6.	Standby Line of Credit	Short Term	2.50	IVR A3+	-	-	-

*Sublimit: Cash Credit of Rs.2.50 crore

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About Infomerics:

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.

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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
Term Loan	-	-	August 2030	53.48	IVR BBB/ Stable
Cash Credit	-	-	-	52.00	IVR BBB/ Stable
Letter of Credit/ Bank Guarantee	-	-	-	5.00*	IVR A3+
Forward Contract	-	-	-	0.56	IVR A3+
Standby Line of Credit	-	-	-	2.50	IVR A3+

*Sublimit: Cash Credit of Rs. 2.50 crore

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

Annexure 3: Facility wise lender details

https://www.infomerics.com/admin/prfiles/Len-RennyStrips-apr23.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.