



## Press Release

### Rexon Strips Limited

December 28, 2023

#### Ratings

Instrument Facility /	Amount (Rs. crore)	Ratings	Rating Action	<a href="#">Complexity Indicator</a>
Long term Bank Facility	22.00	IVR BB+/ Stable (IVR double B plus with Stable outlook)	Reaffirmed	Simple
Short Term Bank Facilities	2.00	IVR A4+ (IVR A four plus)	Reaffirmed	Simple
<b>Total</b>	<b>24.00</b> <b>(INR Twenty four crore only)</b>			

Details of Facilities are in Annexure 1

#### Detailed Rationale

The reaffirmation in the ratings assigned to the bank facilities of Rexon Strips Limited (RSL) derives strength from long experience of promoters in the steel industry, steady growth in scale of operations, moderate working capital requirements and strategic location of the plant. However, these rating strengths are constrained due to moderate capital structure and susceptibility of profitability to volatility in raw material prices, exposure to cyclicity in the steel industry and highly competitive & fragmented nature of industry.

#### Key Rating Sensitivities:

#### Upward Factors

- Growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals on a sustained basis.
- Improvement in the debt protection metrics of the company with interest coverage

#### Downward Factors



## Press Release

- Decline in operating income and/or profitability impacting the cash accrual and debt coverage indicators
- Moderation in the capital structure with deterioration in overall gearing
- Moderation in the debt protection metrics with deterioration in interest coverage

### List of Key Rating Drivers with Detailed Description

#### Key Rating Strengths

- **Long experience of promoters in the steel industry**

RSL has an operational track record of over three decades in the steel industry. Longstanding presence in the industry has helped the Company establish healthy relationships with both customers and suppliers. Further, the promoters are also have vast experience in the steel industry and supported the business regularly.

- **Steady growth in scale of operations**

Total Operating Income of the company increased to Rs.152.93 crore in FY23 from Rs.145.33 crore in FY22 with y-o-y growth of 5.23% due to higher volume sales and increased demand supported by new schemes for infra and construction sector from government. Furthermore, the company revenue has improved by 12% in H1FY24 to Rs.86.70 crore as compared to Rs. 77.36 crore in H1FY23, led by increase in demand.

- **Moderate working capital requirements**

The company's working capital requirements remained moderated with operating cycle improved to 60 days in FY23 from 66 days in FY22. Moreover, the average fund-based utilisation was moderate at 74% providing it with some liquidity buffer.

- **Strategic Location of the plant**

The Rourkela, Odisha, plant is part of the iron ore-rich mineral belt in India, where there are many induction furnaces that use sponge iron as raw material. Also, coal is available locally.

#### Key Rating Weaknesses

- **Moderate capital structure and adequate debt protection metrics**



## Press Release

The capital structure of the company had remained moderate over the past three fiscal years with its satisfactory net worth base of Rs.26.94 crore supported by accretion of profits as on March 31, 2023. Further, the overall gearing has improved and stood moderate to 1.37x as on March 31, 2023 from 2.61x as on March 31, 2022. Long term debt to equity has also improved and stood at 0.54x as on March 31, 2023 from 1.32x as on March 31, 2022. Overall indebtedness of the company marked by Total Outside Liabilities/Tangible Net worth TOL/TNW has also improved and stood at 1.89x as on March 31, 2023, against 3.24x as on March 31, 2022. Debt protection metrics of the company stood comfortable, and the interest coverage indicator decline to 5.15x in FY23 from 6.45x in FY22 due to decrease in the overall profitability. DSCR remains comfortable stood at 2.35x in FY23. Total debt to GCA stood at 3.58 years in FY23.

- **Susceptibility of profitability to volatility in raw material prices**

The degree of backward integration defines the ability to minimize price volatility risk and ability to resist cyclical downturns generally witnessed in the steel industry. Raw material and power are the major cost driver for RSL accounting for ~82% of the total cost of sales in FY23, any southward movement of finished goods price with no decline in raw material price may result in adverse performance of the company. RSL does not have any backward integration for its raw materials, though it enters into yearly agreement with Orissa Mining Corporation for purchase of Iron ore the same exposing it to dependency on outside sources which subjects the company to price volatility risk.

- **Exposure to cyclicity in the steel industry**

The steel industry is sensitive to the business cycles, including changes in the general economy, interest rates and seasonal changes in the demand and supply conditions in the market. Furthermore, the producers of steel & related products are essentially price-takers in the market, which directly expose their cash flows and profitability to volatility of the steel industry.

- **Highly competitive & fragmented nature of industry**

The spectrum of the steel industry in which the company operates is highly fragmented and competitive due to presence of numerous players in India owing to relatively low entry barriers. Hence, the players in the industry do not have pricing power and are exposed to the



## Press Release

prices fixed by the industry giants. Further, the company derive around 42% of its sales in FY23 from its top five customers, indicating a moderately concentrated customer base.

**Analytical Approach:** Standalone

**Applicable Criteria**

[Rating Methodology for Manufacturing Companies](#)

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

[Criteria for assigning rating outlook](#)

### **Liquidity –Adequate**

The liquidity position of the company is expected to remain satisfactory in the near to medium term marked by adequate cushion in expected accruals as against its debt repayment obligations. The average working capital limit utilisation stood at ~74% during the past 12 months ended October 2023 indicating comfortable liquidity buffer.

### **About the Company**

Incorporated in 1993, Rexon Strips Ltd (RSL) manufactures sponge iron with a capacity of 60,000 tpa and iron ore fines and iron ore roasted beneficiated each with a capacity of and 3,00,000 tpa. The company is promoted by Kejriwal family of Orissa.

### **Financials (Standalone):**

For the year ended* / As on	(Rs. crore)	
	31.03.2022	31.03.2023
	<b>Audited</b>	<b>Audited</b>
Total operating Income	145.33	152.93
EBIDTA	17.88	14.98
PAT	8.03	6.91
Total Debt	47.26	36.97
Tangible Net Worth	18.08	26.94
EBDITA Margin (%)	12.30	9.80
PAT Margin (%)	5.52	4.52
Overall Gearing Ratio (x)	2.61	1.37

\*Classification as per Infomerics' standards



## Press Release

### Status of non-cooperation with previous CRA:

CARE Rating has continues the rating of Rexion Strips Limited into the Issuer Non-Cooperating category in view of the non-availability of information and lack of cooperation from the company as per the Press Release dated June 21, 2023.

CRISIL Rating has continues the rating of Rexion Strips Limited into the Issuer Non-Cooperating category in view of the non-availability of information and lack of cooperation from the company as per the Press Release dated August 28, 2023.

**Any other information:** Nil

### Rating History for last three years:

Sr. No.	Name of Instrument/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 (October 12, 2022)	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
1.	Term Loan	Long Term	22.00	IVR BB+/Stable	IVR BB+/Stable	-	-
2.	Bank Guarantee*	Short Term	1.00	IVR A4+	IVR A4+	-	-
3.	Letter of Credit*	Short Term	1.00	IVR A4+	IVR A4+	-	-

\* LC and BG are interchangeable

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### About Infomerics:



## Press Release

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.

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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
Cash Credit	-	-	-	22.00	IVR BB+/ Stable
Bank Guarantee*	-	-	-	1.00*	IVR A4+



## Press Release

Letter of Credit*	-	-	-	1.00*	IVR A4+
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\* LC and BG are interchangeable

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

**Annexure 3: Facility wise lender details**

<https://www.infomerics.com/admin/prfiles/len-Rexon-dec23.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](http://www.infomerics.com).