



Press Release

Renny Strips Private Limited [RSPL]

January 4, 2022

Rating

S. No.	Instrument/ Facility	Amount (INRCrore)	Ratings	Rating Action
1	Issuer Rating	NA	IVR BBB-[Is]/ Stable Outlook (IVR Triple B Minus with Stable Outlook)	Assigned

Details of facilities are in Annexure 1

Rating Rationale

The issuer rating assigned to Renny Strips Private Limited derives strength from the extensive experience of promoters in the steel industry, steady growth in operating profitability, healthy financial risk profile and efficient working capital cycle. The rating however is constrained by risk associated with volatility in raw material prices, working capital intensive nature of operations, intense competition and cyclicity in the steel industry.

Key Rating Sensitivities:

Upward Rating Factor:

- Substantial & sustained improvement in revenue & profitability leading to improvement in debt protection parameters.

Downward Rating Factor:

- Any decline in revenue and/or profitability impacting the debt protection metrics and/or liquidity.

Detailed Description of Key Rating Drivers

Key Rating Strength:



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Extensive Experience of the Promoters in the Steel Industry:

The company is being managed by experienced directors. Collectively, they have rich experience in the industry and were instrumental in developing the company. Having operated in industry since years now, the management has established a strong network with suppliers and customers. The company has a team of experienced and capable professionals, having over a two decade of experience in the segment, to look after the overall management. The day-to-day operations of the company are looked after by the senior management having considerable experience with technological background.

Range bound revenue expected to improve from FY22:

The Company revenue remains range bound at around INR230.00 crore in the last three years ended FY21. Further, revenue is expected to improve in FY22 and beyond on account of positive demand sentiments & planned increase in the company's capacity due to ongoing capex of INR57.80 crore. The capex is being funded by INR44.50 crore of Term loan and balance from equity, unsecured loans & internal accruals. The capex is expected to be completed by June 2022. Capex will lead to increase the capacity to 1,25,000 MTPA from 60,000 MTPA. In IHFY22 it has booked the total revenue of INR130.21 crore (IHFY21:INR88.04 crore)

Steady Growth in Operating Profitability:

The EBIDTA margin of the company improved from 2.21% in FY19 to 3.97% in FY21. The improvement in profitability is majorly due to better cost management and reduction in raw material cost during the period under review. The PAT margin of the company improved from 0.41% in FY19 to 1.91% in FY21.

Healthy Financial Risk Profile:

Financial risk profile of the company is healthy marked by comfortable gearing, TOL/ATNW and other debt coverage indicators. The overall gearing ratio of the Company has improved to 1.33x as on March 31, 2021 (FY20: 1.72x). The TOL/ATNW stood healthy at 1.09x as on March 31, 2021 (FY20: 1.25x). The Interest coverage ratio stood healthy at 4.25x in FY21 (FY20: 2.42x).



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Efficient Working Capital Cycle:

The company's working capital cycle is efficient marked by its Operating cycle (days) of around 52 days FY21 (FY20: 50 days). RSPL maintains an average inventory of around 25 to 30 days of various varieties and grades for smooth running of operations. The average collection period (days) also remains healthy at 25 days in FY21 (FY20: 35 days).

Key Rating Weaknesses:

Risk 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. The company procures most of the scrap from the spot market, thus exposing the company to the volatility associated with the raw material price. Further, finished steel prices are also highly volatile and prone to fluctuations based on global demand supply situations and other macro-economic factors.

Intense competition:

The steel manufacturing businesses 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.

Cyclical in the steel industry:

The domestic steel industry is cyclical in nature and is likely to impact the cash flows of the steel players, including RSPL. The steel industry is cyclical in nature and witnessed prolonged periods where it faced a 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:

- Rating Methodology for Manufacturing Companies
- Financial Ratios & Interpretation (Non-Financial Sector)



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Liquidity: Adequate

The company is earning comfortable level of GCA against the maturing debt obligation and the same is expected to increase with increase in scale of operations and level of margin. This indicates adequate degree of liquidity of the company in meeting its obligations. The average working capital utilisation for the past twelve months ended October 2021 remained at ~59.98% indicating a sufficient liquidity cushion. The company has reported a healthy current ratio at 1.71x as on March 2021.

About the company

Incorporated in 1996 by Mr. Binny Gupta and situated at Village Mangarh, Kohara Macchiwara Road, Ludhiana, Renny Strips Private Limited (RSPL) is engaged in manufacturing a wide range of Steel Round Coil, Wire Rods, Billets, Fasteners, Scaffolding and Thread Bars. The plant includes two furnace units and an automatic rolling mill unit. The unit has installed capacity of 60000 & 36000 MT Per Annum for MS Wire Rod Coil & Steel ingot respectively.

Financials (Standalone)

(INR crore)

For the year ended / As on*	31-03-2020 (Audited)	31-03-2021 (Audited)
Total Operating Income	212.62	231.35
EBITDA	5.31	9.19
PAT	1.55	4.43
Total Debt	24.93	22.71
Adjusted Tangible Net Worth	23.48	28.96
EBIDTA Margin (%)	2.50	3.97
PAT Margin (%)	0.73	1.91
Overall Gearing ratio (x)	1.06	0.78

**Classification as per Infomerics' standards*

Details of Non-Co-operation with any other CRA: N.A.

Any other information: N.A.

Rating History for last three years:



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S. No	Name of Instrument/ Facilities	Current Rating (Year 2021-2022)			Rating History for the past 3 years		
		Type	Amount outstanding (INR crore)	Rating	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1.	Issuer Rating	NA	NA	IVR BBB-[Is]/Stable Outlook (IVR Triple B Minus with Stable Outlook)	--	--	--

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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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 / Outlook
Issuer Rating	-	-	-	NA	IVR BBB-[Is]/Stable Outlook(IVR Triple B Minus with Stable Outlook)

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

Annexure 3: Facility wise lender details: Not Applicable

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Annexure 5: Complexity level of the rated Instruments/Facilities: Not Applicable

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it based on complexity and a note thereon is available at www.infomerics.com.