Press Release

Ratnaveer Precision Engineering Limited

June 15, 2023

Ratings

Instrument / Facility	Amount (Rs. Crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	74.98	IVR BBB / Positive Outlook [IVR Triple B with Positive Outlook]	Assigned	Simple
Short Term Bank Facilities	150.00	IVR A3 [IVR A Three]	Assigned	Simple
Long Term / Short Term Bank Facilities	8.00	IVR BBB / Positive Outlook / IVR A3 [IVR Triple B with Positive Outlook / IVR A Three]	Assigned	Simple
Total	**232.98 (Rupees Two Hundred and Thirty Two Crore and Ninety Eight Lakhs Only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of Ratnaveer Precision Engineering Limited (RPEL) derives strength from long track record of operation and extensive experience of promoters in steel industry, synergistic business models focused on backward integration, diversified customer profile across segments and induction of value added products, diversified customer profile, improvement in scale of operations and profitability margins couple with moderate order book position indicating short term revenue visibility. The rating is however constrained on account of moderate financial risk profile, working capital intensive nature of operations, operates in highly competitive and fragmentated industry, profit margins exposed to fluctuations in steel price movements and foreign exchange risk.

Positive outlook reflects higher share by value added products reflected by improved margins in FY23. EBITDA margins improved to 9.42% in FY23(P) as compared to 6.46% in FY22. IVR expects EBITDA margins to improve through FY24-FY25 with higher share of value-added products to the total revenue. The positive outlook also reflects proposed Initial Public

Offerings (IPO) which is expected to ease liquidity of the company as RPEL is planning to use these IPO proceeds for working capital management as per the DRHP submitted to SEBI. RPEL is already received in-principal approval from NSE and BSE and is expected to receive approval from competent authority shortly.

Key Rating Sensitivities:

Upward Factors

- Higher share of value-added products leading to improvement in margins and cash accruals on a sustained basis.
- Successful completion of raising of funds through an IPO leading to improvement in liquidity.

Downward Factors

- Any unplanned debt-funded capital expenditure leading to deterioration in capital structure.
- Stretched working capital cycle leading to deterioration in liquidity.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Long track record of operation and extensive experience of promoters in steel industry**

  Incorporated in 2002, RPEL has track record of more than two decades in the manufacturing of stainless-steel washers, solar mounting hooks, finishing sheets and SS tubes & pipes products. RPEL has well established relationship with customers with diversification across major end use industries in domestic as well as global market. Apart from directors, the company has a well experienced and qualified management team to execute and monitor the work undertaken for satisfactory completion. All the top management personnel have good experience and in-depth knowledge in their respective fields. Further all the key managerial associated with this company for more than decade.

- **Synergistic business models focused on backward integration**
  The company has developed a synergistic system of backward integration whereby it processes the scrap generated in manufacturing of their products for converting back into the raw material which is utilized again in manufacturing. Thus, the raw material required is also being generated in-house, while the waste being produced in the manufacturing process is being completely utilized, ensuring economies of scale and minimal wastage. This Backward integration helps in achieving efficiency in the production process and gaining competitive advantage, reducing in product costs, control over supply of raw materials and reduce our dependency on third parties for our operations.

- **Diversified customer profile across segments and induction of value added products.**
  RPEL has long-standing associations with its overseas & local customers and has increased its business share with repeated orders over the time. It offers a wide range of products like stainless steel washers, sheets, pipes, hooks, washers, tubes, etc. The company has a moderately diversified customer base in both the domestic and exports market accounting for 20% of its overall sales in FY23 (Prov.). In addition, RPEL has a diversified presence across various segments including Navy, aeronautical, electro machines, motors, windmills, automobiles, railway, etc. The company has been adding value-added products since FY23 (Prov.) such as spring washers, disk washers, NFE 25511 series etc. which has helped in improvement in EBITDA margins. Having a wide range of products enables a company to meet the trends and ever-changing demands of its customers and give them an edge too efficiently compete with its competitors.

- **Diversified customer profile**
  The company sells its products both in the domestic as well as international markets. In the domestic market, they sell their products to the manufacturers as well as traders / stockists and end customers while in the international market they supply their products through large distributors which are among fortune 500 companies in the international market. Further the company has been exporting since incorporation and as on date, some of the countries including namely Germany, UK, Spain, Netherland, etc. Thus, diversified customer base profile signifies non-dependence on any single customer and thereby

hedges its business operations from potential customer specific risk, sector specific risks, change in global markets and international relations etc.

- **Improvement in scale of operations and profitability margins coupled with moderate order book position indicating short term revenue visibility**

  RPEL witnessed consistent growth in the total operating income (TOI) since past three years primarily on account of increase better capacity utilization coupled with increase in sales realization of SS Finishing Sheet and Washer products. Further the company has healthy order book of Rs.127 crore to be executed over next five months, provides short term revenue visibility. Operating profit margins improved on y-o-y basis to 5.54% in FY21 (A), to 6.46% in FY22 (A), and further to 9.35% in FY23 (Prov.) due to higher share of high value-added products to the total revenue. The operating profit margin has improved significantly in FY23 as compared with FY22 mainly on account of changed in the focused from volume driven business to margin centric business, where in the company has selected orders based on value added products primarily. Further net profit margin is also improved in FY23 in line with improvement in scale of operation.

Key Rating Weaknesses

- **Moderate financial risk profile**

  The capital structure marked by adjusted overall gearing has improved and stood at 1.92 times as on March 31, 2023 (Prov.) {vis-à-vis 2.69 times as on March 31, 2022 (A)} on account of fresh equity infusion coupled with treatment of unsecured loan of promoter & related parties as quasi capital. Owing to this, total outside liabilities to adjusted tangible net worth ratio has also improved and stood at 2.39 times as on March 31, 2023 (Prov.) {vis-à-vis 3.46 times as on March 31, 2022 (A)}. Debt coverage indicators marked by interest coverage ratio has improved and stood at 3.65 times in FY23 (Prov.) {vis-à-vis 2.36 times in FY22 (A)} mainly due to improvement in operating profit. The company has projected the capex amounting to Rs.25.00 crore over the next three financial years for technological upgrade, and the same will be funded through internal accruals only.

- **Working capital intensive nature of operations**

  RPEL operation remained working capital intensive reflected by higher net working capital cycle which is at 164 days at the end of FY23 (Prov.) (FY22: 139 days) due to higher inventory days (FY23: 158 days, FY22: 143 days). Inventory days remained higher as RPEL needs to stock higher raw material inventory to meet orders from the customers. IVR notes that raw materials are secured against confirmed orders from the customers. Due to higher working capital cycle IVR's liquidity remained tight reflected by higher working capital utilisation. However, IVR also has unsecured facility from NBFC which RPEL is using for working capital purposes. IVR draws comfort from proposed IPO which is expected to ease RPEL's liquidity. However efficient working capital management will remain a key rating sensitivity from the rating perspective.

- **Operates in highly competitive and fragmentated industry**

  The company operate in an industry which is highly competitive and fragmented and compete with a range of organized and unorganized players, both at the national and regional level. Further, while the company has an expanding portfolio of products, their competitors may have the advantage of focusing on concentrated products. Further, the company compete against established players also, which may have greater access to financial, technical and marketing resources and expertise available to them than RPEL in the products and services in which we compete against them.

- **Profit margins exposed to fluctuations in steel price movements and foreign exchange risk**

  RPEL is vulnerable to the volatility in the raw material and finished goods prices. The prices of key raw materials, such as stainless scraps, SS Sheets and SS coils have shown a volatile trend over the years and are determined by market forces. the company's profitability remains exposed to adverse fluctuations in foreign currency, which is partially mitigated by certain degree of cross hedging.

Analytical Approach: Standalone

Applicable Criteria:

[Criteria of Rating Outlook | Infomerics Ratings]

[Rating Methodology for Manufacturing Companies]

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

Liquidity – Adequate

RPEL has adequate liquidity supported by estimated net cash accruals of over Rs.35-60 crore per annum against repayment obligations of Rs.2-4 crore per annum over the medium term. Further company has projected an increase in fixed assets of Rs.25.00 crore in three financial years, and the same will be funded through internal accruals only. The bank limit remains highly utilized at around 95% for past 12 months through March 2023 due to large working capital requirement. The timely sanctioning of additional funds and controlled working capital cycle with increasing scale of operations will remain monitorable factor. Further RPEL has free cash and balance Rs.3.50 crore as on March 31, 2023. The current ratio remained at 1.33 times for fiscal 2023.

About the Company

Ratnaveer Precision Engineering Limited (RPEL) manufactures stainless steel products in Vadodara (Gujarat). RPEL is promoted by Mr. Ramanand Sanghvi and currently managed by Mr. Vijay Sanghvi and family. The Company manufactures stainless steel washers, solar mounting hooks, finishing sheets and SS tubes & pipes products, which find application in elevators, doors and home appliances. The company produce more than 2500 washers in different sizes and international standards. The company incorporates an in-house backward integrated manufacturing facility, which makes them independent to manufacture any product size at any time. The manufacturing facilities located at Vadodara and Ahmedabad, Gujarat with an installed capacity of 26000 metric tons per annum, which was utilized around 84% during last three years ended as on March 31, 2023.

Financials (Standalone)*:

(Rs. Crore)

For the year ended / As on	31-Mar-2022 (Audited)	31-Mar-2023 (Provisional)
Total Operating Income	426.94	479.75
EBITDA	27.56	44.87
PAT	9.57	24.07
Total Debt	75.70	87.14
Tangible Net worth	67.76	114.62
EBITDA Margin (%)	6.46	9.35
PAT Margin (%)	2.23	5.00
Overall Gearing Ratio (times)	1.12	0.76

**Classification as per Infomerics standards*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating History for last three years:

		Current Ratings (Year 2023-24)			Rating History for the past 3 years		
Sr. No.	Name of Instrument / Facilities	Type	Amount outstanding (Rs. Crore)	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
Press Release					–	–	–
1.	Fund Based – GECL Loan	Long Term	5.00	IVR BBB / Positive	–	–	–
2.	Fund Based – ECLGS – I	Long Term	4.09	IVR BBB / Positive	–	–	–
3.	Fund Based – ECLGS – II	Long Term	2.54	IVR BBB / Positive	–	–	–
4.	Fund Based – Cash Credit	Long Term	62.00	IVR BBB / Positive	–	–	–
5.	Fund Based – Gold Card Limit	Long Term	1.35	IVR BBB / Positive	–	–	–
6.	Non-Fund Based – Letter of Credit	Short Term	149.89	IVR A3	–	–	–
7.	Non-Fund Based – Bank Guarantee	Short Term	0.11	IVR A3	–	–	–
8.	Proposed	Long Term / Short Term	8.00	IVR BBB / Positive / IVR A3	–	–	–

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About Infomerics:

Infomerics Valuation and Rating Private Limited (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
Long Term – Fund Based – GECL Loan	–	–	Nov-2025	5.00	IVR BBB / Positive
Long Term – Fund Based – ECLGS – I	–	–	Jul-2025	4.09	IVR BBB / Positive
Long Term – Fund Based – ECLGS – II	–	–	Oct-2025	2.54	IVR BBB / Positive
Long Term – Fund Based – Cash Credit	–	–	–	62.00	IVR BBB / Positive
Long Term – Fund Based – Gold Card Limit	–	–	–	1.35	IVR BBB / Positive
Short Term – Non-Fund Based – Letter of Credit	–	–	–	149.89	IVR A3
Short Term – Non-Fund Based – Bank Guarantee	–	–	–	0.11	IVR A3
Long Term / Short Term – Fund Based / Non-Fund Based – Proposed	–	–	–	8.00	IVR BBB / Positive / IVR A3

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

Annexure 3: Facility wise lender details

https://www.infomerics.com/admin/prfiles/LEN-RPEL-15JUN2023.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.