June 07, 2024

R.N. Gupta & Co. Ltd.: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund based – Cash credit	6.00	6.00	[ICRA]A (Stable); reaffirmed
Short-term – Fund based limits	71.00	71.00	[ICRA]A1; reaffirmed
Short-term – Non fund-based limits	22.50	22.50	[ICRA]A1; reaffirmed
Total	**99.50**	**99.50**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings reaffirmation factors in sustained healthy operating and financial performances of R.N Gupta & Co. Ltd. (RNG) from expectations of stable demand in the near to medium term and the company's demonstrated track record of repeat orders from its customers, in both the export as well as domestic markets. In FY2024, despite volume growth, the company's revenue declined by 20% following a 40% revenue growth in FY2023, due to drop in realisations. The operating margins were also lower at 12.9% vis-à-vis 19% in FY2023, on a provisional basis, due to the decline in realisations and lower duty refund compared to FY2023. ICRA expects RNG's performance to remain stable and healthy going forward, with a strong balance sheet to keep capitalisation and debt protection indicators at sustained healthy levels. The company's interest cover and total debt/OPBITDA is likely to remain robust at more than 40 times and less than 0.5 times, respectively, in FY2025. The liquidity position is expected to remain strong from healthy net cash accruals of ~Rs. 80 crore expected in FY2025 and from available cash and bank balances and cushion in the working capital limits relative to its nil debt obligations, going forward.

The ratings continue to favourably factor in the experience of the promoters and the established position of RNG as a key supplier of forged components in the global market, particularly North America. The company operates in a niche segment of industrial (non-automotive) forgings, benefitting from its strong technical and manufacturing capabilities. The company has been associated with its key customers for over two decades and has been generating consistent orders on the back of regular investments in capacities and maintaining quality standards.

The ratings are, however, constrained by the company's concentration in the oil and gas sector, and any slowdown in capital expenditure in the sector may impact the demand prospects of RNG's products. Moreover, the client (with top- two customers contributing ~70% to total revenue) and geographical concentration risks (with North America contributing ~80% to total sales) remained very high. RNG is gradually diversifying into other markets to mitigate the risk to an extent. In addition, the company's operating margin remains susceptible to price fluctuations in the key raw material i.e., steel. As the revenues are mainly export driven, any adverse currency fluctuation may have a bearing on the company's profitability in the absence of an adequate hedging mechanism. Nevertheless, RNG's overall liquidity position is comfortable with sufficient cash/bank balance and unutilised working capital facilities.

The Stable outlook on the [ICRA]A rating reflects ICRA's opinion that the company will continue to register healthy profits and cash accruals over the near term, along with sustenance of a healthy liquidity position.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters and established track record in forging industry – RNG is a Ludhiana-based manufacturer of industrial forged and machined components. The company operates in a niche segment of primarily non-auto forgings and manufactures flanges required in industries like oil and gas, piping, railways, etc. The company and its promoters have a long track record in the sector.

Established relationships with clients – RNG is present in both the domestic and international markets. The company's established relationships with customers provide revenue visibility. The products are supplied under RNG's own brand and have various international quality certifications. The approvals and certifications act as entry barriers for other players. The company has maintained a stable order flow from its clients.

Healthy financial risk profile supported by low debt levels – Despite lower profitability resulting in OPBITDA at ~Rs. 93 crore in FY2024 from ~Rs. 175 crore in FY2023 due to lower realisations, RNG's financial risk profile is expected to remain healthy on account of conservative gearing and healthy debt coverage indicators relative to nil debt repayment obligations. ICRA expects the company's interest cover and total debt/OPBITDA to remain robust at more than 40 times and less than 0.5 time, respectively, in FY2025.

Credit challenges

Moderation in profitability in FY2024 – Led by lower realisations and duty refund during the year, the company's profitability moderated in FY2024, with operating margin at 12.8%, on a provisional basis, compared to 19.3% in FY2023. Nonetheless, ICRA understands that FY2023 was an exceptional year with abnormal profits owing to high prices of steel and ocean freight Hence, despite moderation the profitability remained comfortable. RNL is expected to maintain margins at current levels going forward, leading to comfortable profits and cash accruals over the medium term.

Profitability exposed to fluctuations in steel prices and unfavourable forex movements – RNG remains vulnerable to price risks, given the high share of raw material costs and its limited ability to pass on any sharp price increases to customers. Also, exports contribute ~80% to the total revenue while import purchases remain minimal, resulting in foreign currency risk in the absence of any active hedging policy. The company's ability to pass on the increased cost to the customers will remain a key determinant of its profitability, going forward.

Operations susceptible to slowdown in capex of end-user industries – The company's product portfolio includes flanges, pipe connectors and special flanges as per customer specifications. The industries that it mainly caters to include piping, oil and gas, engineering, railways, etc. The order flow is, thus, dependent on the capex undertaken by the key end-user industries and any slowdown may impact the company's revenues.

Customer and geographical concentration risks – The major portion of the company's export sales take place in the North American market, with two major customers accounting for around 70% of the business. This results in high geographical and customer concentration risks. While RNG is slowly diversifying into other markets, an increase in sales to other geographies along with new customer addition would be a credit positive.

Liquidity position: Strong

The company's **strong** liquidity profile is reflected in the healthy cash accrual generation above Rs. 75 crore in FY2024 relative to nil debt repayment obligations and low utilisation of working capital borrowings. The liquidity continues to be supported by healthy cash and investments of over Rs. 120 crore and unutilised working capital limits of ~Rs. 50 crore as on March 31, 2024.

Rating sensitivities

Positive factors – ICRA could upgrade RNG's ratings, if there is diversification in the customer base while maintaining a healthy profitability and liquidity position.

Negative factors – - Pressure on the ratings could arise, if a sharp contraction in earnings weakens RNG's coverage metrics, or a major debt-funded capital expenditure or an elongation in the working capital cycle weakens the financial risk profile.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	None
Consolidation/Standalone	Standalone

About the company

Incorporated in 1948 in Ludhiana and promoted by the Gupta family, RNG is a Punjab-based closely held public limited company. The company manufactures forgings, primarily steel forged flanges, mainly used in oil and gas pipelines and in construction of oil refineries. RNG also manufactures forgings for automotive parts (mainly tractors and two wheelers) and the Indian Railways (albeit in small quantity). The manufacturing units are in Ludhiana and have a combined capacity (forging + machining) of 50,000 tonnes per annum. The company is ISO-9001:2015 & PED as per the directive PED 2014 /68 /EU on pressure equipment certified by DNV of the Netherlands. RNG exports its products under its own brand name, RNG, to several countries including USA, Canada, UK, Germany, Spain, Italy, and Turkey through a dealer network.

Key financial indicators (audited)

RNG Standalone	FY2022	FY2023	FY2024*
Operating income	651.8	909.0	724.2
PAT	95.6	134.1	64.2
OPBDIT/OI	19.9%	19.3%	12.8%
PAT/OI	14.7%	14.8%	8.9%
Total outside liabilities/Tangible net worth (times)	0.7	0.3	0.1
Total debt/OPBDIT (times)	0.1	0.1	0.3
Interest coverage (times)	52.0	148.8	48.1

*Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amounts in Rs. crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; *Provisional Numbers*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
					June 07, 2024	June 30, 2023	June 16, 2022	-
1	**Fund based – Cash credit**	Long-term	6.00	-	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	**[ICRA]A- (Stable)**	-
2	**Fund based limits**	Short-term	71.00	-	**[ICRA]A1**	**[ICRA]A1**	**[ICRA]A2+**	-
3	**Non-fund-based limits**	Short-term	22.50	-	**[ICRA]A1**	**[ICRA]A1**	**[ICRA]A2+**	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term – Fund Based – Cash Credit	Simple
Short Term – Fund Based Limits	Simple
Short Term – Non-Fund-Based Limits	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Fund Based – Cash Credit**	NA	NA	NA	6.00	[ICRA]A (Stable)
NA	**Fund Based Limits**	NA	NA	NA	71.00	[ICRA]A1
NA	**Non-Fund-Based Limits**	NA	NA	NA	22.50	[ICRA]A1

Source: Company

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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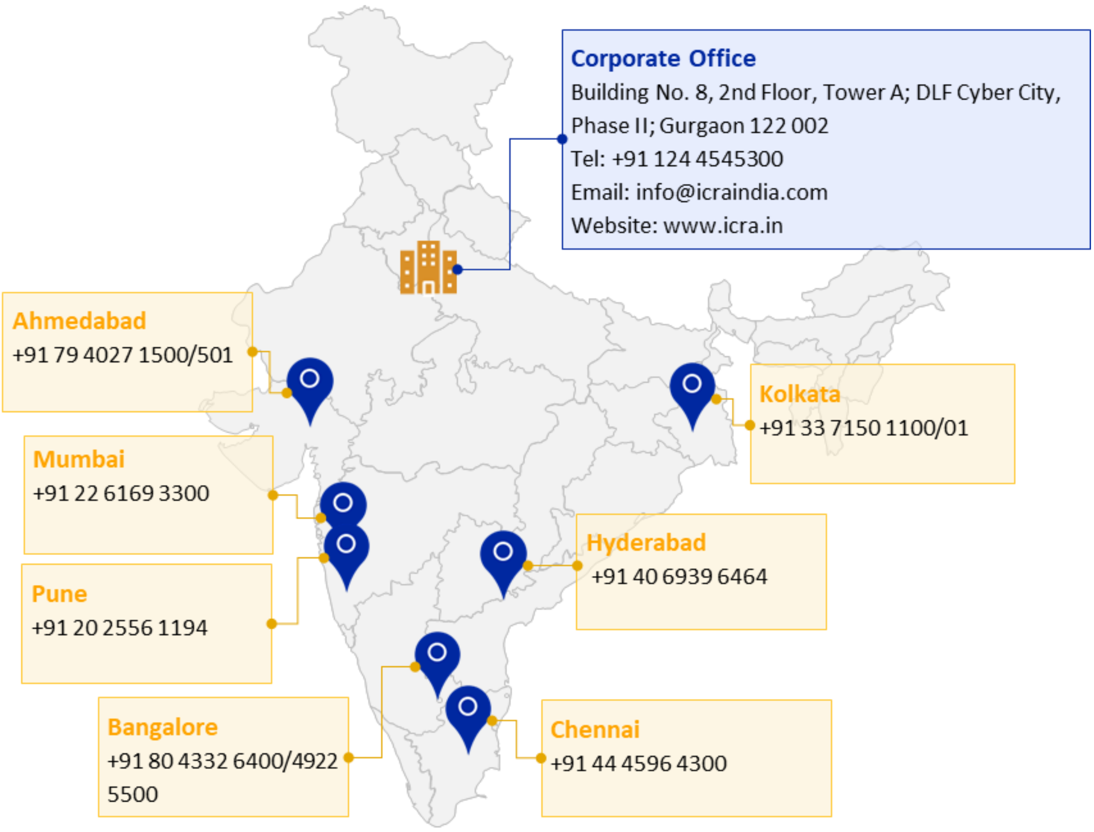

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