

August 28, 2017

## Raajratna Metal Industries Limited (Revised)

### Summary of rated instruments

Instrument*	Rated Amount (in crore)	Rating Action
Long Term Fund Based-Term Loan	10.00	[ICRA]A-(Positive); Outlook revised from 'Stable'
Short Term Fund Based-PC/PCFC/FBD/FBN/PSCFC	290.00	[ICRA]A2+
Short Term Non Fund Based Limits	50.00	[ICRA]A2+

\*Instrument details are provided in Annexure-1

### Rating action

ICRA has reaffirmed the long-term rating at [ICRA]A- (pronounced ICRA A minus) on the Rs. 10.00 crore<sup>1</sup> term loan facility of Raajratna Metal Industries Limited (RMIL)<sup>2</sup>. The outlook on the long-term rating has been revised to 'Positive'. ICRA has also reaffirmed the short-term rating at [ICRA]A2+ (pronounced ICRA A two plus) to the Rs. 290.00 crore short term fund based facilities and the Rs. 50.00 crore short-term non-fund based facilities of RMIL.

### Rationale

The revision in outlook takes into account an improvement in the financial risk profile of the company in FY2017, supported by healthy growth in operating income and profitability that has led to an improvement in capital structure and coverage metrics of the company. The ratings continue to positively factor in the long standing experience of the promoters, the established track record of company in the stainless steel industry spanning more than two decades and established business relations with a highly geographically diversified customer base across over 60 countries worldwide. Further, ICRA also notes the technical expertise of the company in manufacturing higher value added stainless steel wire and presence in high precision product segments having critical applications in its diversified end-user segments.

The assigned ratings are however constrained by the vulnerability of operations to the inherent cyclicality in the stainless steel industry, the high competitive pressures in export markets such as USA and EU as well as changes in regulations in export markets such as the anti-dumping duty imposed on Indian stainless steel wire manufacturers in FY 2014 in EU. The company's profitability is exposed to fluctuations in metal prices due to supply constraints and limited bargaining power with suppliers although the company has been able to pass on the same to customers in the past. The ratings also factor in the exposure of profitability to fluctuations in foreign currency exchange rates with exports contributing to ~70% of total sales, although the same is mitigated by the presence of a natural hedge as ~30% of raw material is imported and the company's policy of entering into forward contracts. Further, the working capital intensity of the company has remained high over the past three years owing to long credit period extended to customers and significant raw material inventory managed by the company.

<sup>1</sup> 100 lakh = 1 crore = 10 million

<sup>2</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications.

Going forward, the company's growth would remain contingent to revival in demand and improvement in realizations in export markets as well as increased sales to EU following expiry of the anti-dumping duty in FY 2018. The company would benefit from increased sales of new products as well as from further penetration of Raajratna group in South-East Asian markets owing to PT Raajratna Wire Indonesia (PTRW's) growing operations in the sub-continent. However, the company's volumes and margins would continue to remain exposed to the high competition from Chinese and Korean manufacturers in major export destinations. In ICRA's view, the ability of the company to maintain healthy profit margins by managing input costs and to improve its working capital cycle through better management of receivables would remain critical.

### Key rating drivers

#### Credit strengths

- **Long standing experience of the promoters and established track record of operations of the company in the stainless steel industry:** Raajratna Metal Industries Limited (RMIL) is promoted by Mr. Babulal Sanghvi and other members of the Sanghvi family. The promoters, who have extensive experience in the steel industry spanning more than two decades, established RMIL in 1988. RMIL also has three wholly owned subsidiaries- Raajratna Stainless Wire Inc (RSW) based in USA, Erre Inox Srl (EIS) based in Italy and PT Raajratna Wire, Indonesia (PTRW) based in Indonesia. While RSW and EIS are marketing arms of the company, PTRW carries out manufacturing of stainless steel wires in Batam, Indonesia.
- **Financial profile characterised by healthy operating profitability since FY2013, comfortable capital structure and debt protection metrics:** The company's operating profitability improved from ~10% till FY2013 to ~14-15% in FY2014-FY2015 and further to 16.8% in FY2017 owing to increasing sales of higher value added products such as profile wires that the company has added to its product mix over the last few years. In line with improved operating profitability and a drop in interest and finance costs, the net profitability also gradually improved to 9.8% in FY2017. Further, stable debt levels and healthy accruals has helped in a sustained improvement in the capital structure with gearing at 0.4 time as on March 31, 2017 vis-à-vis 0.8 time as on March 31, 2015. Further, interest and debt coverage metrics have remained comfortable with interest coverage of 12.3 times and NCA/Debt of 54% while Total Debt/OPBDITA stood at 1.3 times for FY2017.
- **Healthy capacity utilization supported by strong growth in sales volumes:** The company has two manufacturing units, located in Kalol, Gandhinagar district of Gujarat, having combined installed capacity of 36000 MTPA (metric tonnes per annum). Owing to healthy demand for the wide variety of products manufactured by the company, the capacity utilization had remained high at more than 80% for the past few years. Capacity utilization levels are expected to witness support in the medium term with expiry of the anti-dumping duty in FY2018, and addition of new customers going forward.
- **Technical expertise in manufacturing higher value added steel wires and presence in high precision product segments having applications in diversified end user segments:** RMIL manufactures stainless steel based products such as wires of various grades, compositions and specifications which are used for manufacturing of a wide variety of products such as kitchenware, springs, chains, nails, balls, filters, wire mesh and surgical needles and implants. The group's product mix also includes stainless steel bright bars, fine wires, nickel wires and stainless steel rebars. The product mix is dominated by stainless steel wires which have contributed to ~80% of total sales followed by bright bars which formed ~5% of revenues over the recent few years.

- **Established business relations with customers and high geographic diversification with sales to customers in over 60 countries worldwide:** The company has a diversified customer base with the contribution of the top ten customers constituting ~20% of sales for FY 2017. The company has a wide customers base spread across ~60 countries. Additionally, RMIL's marketing efforts draw support from its marketing arms that are present in USA, Italy and Indonesia. Since the company carries out all sales directly through its marketing representatives in target markets with no sales directed through traders or merchant exporters, the company has established business relations with its customers translating into repeat orders. Moreover since all negotiations are carried out directly the company is able to manage pricing and quality better leading to healthy margins.

#### Credit weaknesses

- **Operations exposed to cyclicity in the stainless steel industry and competitive pressures in export markets from Chinese/ Korean suppliers:** Indian stainless steel wire manufacturers and exporters face stiff competition from Chinese and Korean exporters in key markets like EU and USA. Owing to economies of scale, Chinese and Korean manufacturers dominate the markets in some product segments however for specialised and high precision products, Indian manufacturers have a competitive advantage in terms of higher quality, consistent compliance to quality specifications and better after sales services. Further, operations remain exposed to cyclicity faced by the downstream users of RMIL's products.
- **Operations in export markets vulnerable to changes in regulations and government policies in export markets related to price control such as anti-dumping duty imposed on Indian wire manufacturers in FY2014 in EU:** RMIL derives ~70% of its total revenue from exports. As RMIL is predominantly an export oriented player, its operations are also exposed to changes in duty structures in importing countries. EU had imposed an anti-dumping duty of 3.7% on Indian stainless steel wire manufacturers in November 2013<sup>3</sup>. In the long term, if the anti-dumping duty is discontinued after expiry of its term in 2018, the company stands to gain by way of removal of the currently applicable duty.
- **Profitability exposed to the fluctuations in metal prices given limited bargaining power with suppliers; however the company has been able to largely pass on these price fluctuations:** RMIL's profitability is exposed to fluctuations in raw material prices which form ~70% of average selling price. Ni forms 2-20% of stainless steel in terms of weight composition but forms upto 60% of total cost in terms of value; thus profitability is exposed to fluctuations in Ni prices. RMIL however has a policy of booking raw material procurement against orders and prices for products are quoted as per prevalent metal prices, insulating RMIL's profitability against price volatility to a certain extent.
- **Exposure of profitability to fluctuations in foreign currency exchange rates, however the risk is mitigated by forwards contracts for exports:** As RMIL is predominantly an export oriented player RMIL's operations remain exposed to fluctuations in foreign currency exchange rates such as USD (\$) and Euro (€). However, the company has a hedging mechanism to reduce the risk; the management generally books forwards contracts for exports, though at times the company also keeps open positions. Further, as imports form ~30% of total raw material purchases, there remains some degree of natural hedge.
- **High working capital intensity owing to long credit period extended to customers especially in export markets, build up of tax credit and significant raw material inventory maintained by the company:** Owing to the long standing business relations with customers and competition, the company extends credit period of upto 60-90 days. Extended credit of upto 180 days is given to RMIL's wholly owned subsidiaries RSW (USA), EIS (Italy) & PTRW (Indonesia). Although the company maintains

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<sup>3</sup> Provisionally imposed In May 2013

limited finished goods inventory since production is largely order backed, raw material inventory is maintained by the company to ensure timely completion of orders. Further, NWC/OI also remains high (between 45-47%) due to a buildup of excise duty and VAT credit. This amounted to ~Rs.27 crore as on March 31, 2017 vis-a-vis Rs 30 crore as on March 31, 2016. This largely includes the duty paid on raw material that has been utilized for manufacturing products that are exported.

**Analytical approach:** For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

### Links to applicable criteria

[Corporate Credit Rating Methodology](#)

### About the company:

Incorporated in 1988, Raajratna Metal Industries Limited (RMIL) is primarily engaged in manufacturing of stainless steel wires as well as stainless steel bright bars, and specialty products like fine wires, nickel wires and stainless steel rebars. RMIL has two manufacturing units located near Kalol in Gandhinagar district of Gujarat having combined installed manufacturing capacity of 36000 MTPA.

The company has three wholly owned subsidiaries Raajratna Stainless Wire Inc (RSW) based in USA, Erre Inox Srl (EIS) based in Italy and PT Raajratna Wire, Indonesia (PTRW) based in Indonesia. While RSW and EIS are marketing wings of the company, PTRW carries out manufacturing of stainless steel wires in Batam, Indonesia. RMIL with its subsidiaries forms the Raajratna Group.

For the year ended March 31, 2017, on an operating income of Rs. 626.5 crore, RMIL reported a PAT of Rs. 61.7 crore as per the provisional financial results as against an operating income of Rs 547.8 crore and PAT of Rs. 37.2 crore for the year ended March 31, 2016.

### Key Financial Indicators (Audited)

	FY2016	FY2017
Operating Income (Rs. crore)	548	627
PAT (Rs. crore)	37	62
OPBDIT/ OI (%)	14.4%	16.8%
RoCE (%)	17.1%	23.0%
Total Debt/ TNW (times)	0.5	0.4
Total Debt/ OPBDIT (times)	1.6	1.3
Interest coverage (times)	5.5	12.3
NWC/ OI (%)	44%	47%

*OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress); NWC: Net Working Capital*

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for last three years:**
**Table:**

S.No	Name of Instrument	Current Rating (2017)			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. Crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
				<b>August 2017</b>	<b>June 2016</b>		
1	Long Term Fund Based-Term Loan	Long Term	10.00	[ICRA]A-(Positive)	[ICRA]A-(Stable)	-	-
2	Short Term Fund Based-PC/PCFC/FBD/FBN/PSCFC	Short Term	290.00	[ICRA]A2+	[ICRA]A2+	-	-
3	Short Term Non Fund Based Limits	Short Term	50.00	[ICRA]A2+	[ICRA]A2+	-	-

**Complexity level of the rated instrument:**

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

**Annexure-1**  
**Details of Instrument**

<b>Name of the instrument</b>	<b>Date of Issuance/Sanction</b>	<b>Coupon rate</b>	<b>Maturity Date</b>	<b>Size of the issue (Rs. Cr)</b>	<b>Current Rating and Outlook</b>
Long Term Fund Based-Term Loan (Proposed)	-	-	-	10.00	[ICRA]A-(Positive)
Short Term Fund Based-PC/PCFC/FBD/FBN/PSCFC	-	-		290.00	[ICRA]A2+
Short Term Non Fund Based Limits	-	-		50.00	[ICRA]A2+

Source: Raajratna Metal Industries Limited



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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.

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