ICRA

R.P. Multimetals Pvt. Ltd.

June 14, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Cash Credit	25.00	25.00	[ICRA]BB (Stable); upgraded from [ICRA]BB- (Stable)
Non-Fund Based	30.00	30.00	[ICRA]A4+; upgraded from [ICRA]A4
Total	**55.00**	**55.00**	

*Instrument details in Annexure

Rating action

ICRA has upgraded its long-term rating from [ICRA]BB- (pronounced ICRA double B minus) to [ICRA]BB (pronounced ICRA double B) for the Rs. 25.00-crore fund-based limits of R.P. Multimetals Pvt. Ltd. (RPMPL). ICRA has also upgraded its short-term rating from [ICRA]A4 (pronounced ICRA A four) to [ICRA]A4+ (pronounced ICRA A four plus) for the Rs. 30.00-crore non-fund based limits of RPMPL. The outlook on the long-term rating is Stable.

Rationale

For arriving at the ratings, ICRA has consolidated the business and financial risk profiles of RPMPL and its Group companies – R.P Steel Tubes and Narain & Co. – as these operate in a similar line of business, have operational linkages and share a common management. The companies are together referred to as the Group.

ICRA's ratings revision consider the continued healthy growth in the Group's operating income (OI) and cash accruals. The ratings also take into account the decline in gearing level which resulted in better coverage indicators and improvement in working capital intensity. The rating revision also factors in the improved steel industry outlook for the near-to-medium term which is also expected to support cash flows going forward. Moreover, the ratings derive comfort from the Group's forward integration — setting up the rolling mill and pipe manufacturing unit in RPMPL and R.P. Steel Tubes (RPST) — resulting in improved scale of operations, better realisations and improved profitability. The ratings continue to favourably factor in the Group's proximity to its suppliers and customers and the long track record of the promoters in the steel industry.

However, the ratings continue to be constrained by the fragmented and competitive nature of the steel industry because of low technological complexity of the manufacturing process, and its vulnerability to fluctuations in raw materials prices and foreign exchange rate. ICRA also takes note of the modest financial risk profile of the Group as reflected by elevated Debt/OPBDITA levels and weak coverage indicators.

Going forward, the Group's ability to further expand its scale of operations as well as improving its operating margins and maintaining an optimal working capital intensity will remain the key rating sensitivities.

Outlook: Stable

ICRA believes that the Group will continue to benefit from the extensive experience of its promoters. The outlook may be revised to Positive if there is substantial increase in the Group's profitability margins alongside a decline in its debt levels. The outlook may be revised to Negative if the cash accrual is lower than expected, or there is any major decline in sales turnover, or stretch in the working capital cycle weakens liquidity.

Key rating drivers

Credit strengths

Experienced promoters with long track record provides competitive edge – The promoters of the Group have experience of two decades. Such a long presence in the industry provides them a competitive edge in establishing strong relationships with suppliers and customers.

Proximity to established industry of steel products provides competitive advantage – The main raw materials used by the Group are ferrous scrap and sponge iron which are mainly imported. The finished products like billets, ERW pipes and HR coils are sold to pipe manufacturers and traders located in the vicinity of Punjab.

Established relationship with key customers and suppliers enables firm to secure repeat orders – The Group, by virtue of its long presence in the steel industry, has developed healthy relationships with major suppliers and customers. This has resulted in repeat orders from the same.

Forward integration into manufacturing of ERW Pipes leads to improvement in topline and operating margin – RPMPL has diversified into HR coils and ERW pipes from FY2015. Due to the value-additive nature of the products there has been an improvement in the topline and operating margin of the firm.

Credit challenges

Operations in highly fragmented and competitive industry – The steel industry is highly fragmented and competitive because of the low technological complexity of the manufacturing process. The growth in construction and real estate activity in northern India over the last few years has led to the entry of numerous players in steel product manufacturing. In terms of the installed capacity as well as the scale of operations, is a relatively small player catering to a local market and is subject to competition from regional players.

Exposure to price risk as inventory procurement is not always order backed – The Group's product procurement is not always order backed, which means that it procures scrap and ferro alloys from suppliers and then sells the same as per the demand for its products. Further, it does not always have fixed-price agreements with its suppliers or customers. In case of wide fluctuations in prices, it faces the risk of buying at high prices and selling at relatively lower prices.

Exposure to forex risk due to significant raw material imports – RPMPL imports more than 50% of its raw material, viz. scrap metal and ferrous alloys. Thus, it is exposed to adverse movements in foreign currency movements. This exposes the firm to adverse movements in foreign exchange.

Modest financial risk profile – The Group's modest financial profile is reflected by its elevated Debt/OPBDITA levels and weak coverage indicators.

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

RPMPL was established in 1999 and manufactures steel billets and blooms and steel coils/flats at its facility in Gobindhgarh, Punjab (installed capacity of 66,600 MT per annum). The major raw materials used by the company are ferrous alloys and scrap metal, which are mainly imported. The steel products manufactured by the company are supplied to the steel rolling mills in Mandi Gobindgarh. In FY2015, the company set up a facility for manufacturing flats/coils from the billets and ERW pipes.

About the group

R.P. Steel Tubes (RPST) – Incorporated in 2008, RST is a partnership firm that manufactures MS (mild Steel) bars and flats. The manufacturing facility of the firm is located at Mandi Gobindgarh, Punjab and has a capacity of producing 45,000MT per annum of bars and flats. In FY2015, the firm set up a new facility with an installed capacity of producing 15,000 MT of ERW pipes per annum.

Narain & Company (NC) – It trades in iron and steel products such as angles, billets, beam, channel, bloom, and billet. NC is a distributor of Rashtriya Ispat Nigam Limited (RINL) in northern India. Besides, the company procures products from various rolling mills and distributors in Mandi Gobindgarh based on its requirement, before selling the same to auto part manufacturers and exporters. Around 80% of the total sales are made to northern India and some quantities are also sold to eastern and southern India.

Key financial indicators (Audited)

	FY2016	FY2017
Operating Income (Rs. crore)	639.43	715.44
PAT (Rs. crore)	1.58	2.6
OPBDIT/OI (%)	3.20%	2.84%
RoCE (%)	10.09%	10.77%
Total Debt/TNW (times)	3.89	3.80
Total Debt/OPBDIT (times)	7.55	7.75
Interest Coverage (times)	1.21	1.10

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years

	Instrument	Current Rating (FY2019) Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2019 June 2018	Chronology of Rating History for the past 3 years: Date & Rating in FY2017 January 2017	Date & Rating in FY2017 February 2016	Date & Rating in FY2016 February 2015
1	Cash Credit	Long Term	25.00		[ICRA]BB (Stable)	[ICRA]BB- (Stable)	[ICRA]B+	[ICRA]B+;
2	Non-Fund Based	Short Term	30.00		[ICRA]A4+;	[ICRA]A4	[ICRA]A4	[ICRA]A4

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

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	25.00	[ICRA]BB (Stable)
NA	Non-Fund Based	NA	NA	NA	30.00	[ICRA]A4+

Source: RPMPL.

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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.

For more information, visit www.icra.in

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